



REPORT TO THE LEGISLATURE

A REVIEW OF THE DEPARTMENT OF NATURAL RESOURCES' COMMERCIAL LANDS PROGRAM

December 2006

**Report to the Legislature
A Review of the Department of Natural Resources'
Commercial Lands Program**

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A. Executive Summary

Legislative Directive

In mid-2006, the Washington State Legislature (the “Legislature”) approved an appropriation to the Washington State Investment Board (the “SIB”) to perform an evaluation of the Washington State Department of Natural Resources (the “DNR”) Commercial Lands Program (the “CLP”). The CLP is one component of the DNR’s broader Upland Leasing program that also includes agricultural, aquatic, and other lands that provide revenues that are complementary to the DNR’s timber revenues. In August 2006, the SIB retained Pension Consulting Alliance, Inc. (“PCA”), one of the SIB’s investment consultants, to conduct the CLP evaluation. The legislation required that a draft of the report be delivered to the State, by November 1, 2006. Following delivery of this draft, a final draft will be submitted to the State by December 1, 2006.

Brief Background on the CLP

The DNR is mandated by State law to manage over 5 million acres of state-owned lands for long-term benefits to current and future trust beneficiaries and other residents of the state.¹ The mandate for the DNR is quite broad, ranging from preserving natural habitats for recreation and preservation purposes to providing income to fund various State agencies and institutions.

Nearly 3 million of the 5 million acres of the DNR-managed lands are held in trust to support construction of public schools, universities, colleges, state prisons, and institutions.² Much of this land is timber-oriented, requiring the DNR to harvest and sell timber to provide income to various trust beneficiaries.

Currently, approximately 85% of the income to the trusts’ beneficiaries comes from timber revenue.³ The remaining income is derived from other alternative asset (i.e., non-timber) investment programs, such as the CLP and agriculture lands, managed by the DNR (see chart, next page).⁴ Across all land investment programs, the DNR produced total revenue of \$251 million in fiscal year 2005.

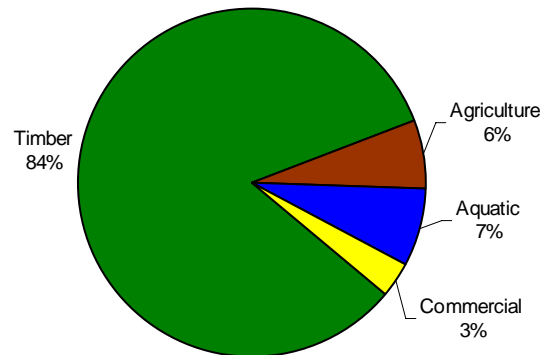
¹ Chapter 43.30 RCW, Source: Strategic Plan for The Department of Natural Resources 05-07 Biennium.

² Strategic Plan for The Department of Natural Resources 05-07 Biennium, p. 14.

³ 2004 DNR Independent Review Committee Report (the IRC Report), p. 1.

⁴ Appendix A, June 2006 Economic And Revenue Forecast – Washington DNR, “Analysis of Revenue from the Upland Leasing Program – A 10-Year Review (1995-2005)”.

Fiscal 2005 DNR Revenue Allocation



An important objective of the DNR is to diversify its income stream by allocating more assets to alternative asset segments (primarily the commercial lands (CLP) and agriculture programs), when feasible. Specifically, in its land transaction programs, DNR's strategy has been to redeploy two-thirds of any proceeds derived from the disposal of unproductive land holdings into the alternative programs, while allocating any remaining proceeds back into assets that enhance and/or protect the overall trust asset base.⁵ This strategy is consistent with some of the trusts' beneficiaries' desire to have DNR pursue further income diversification strategies.⁶ As of 10/31/2006, the CLP portfolio had an appraised value of approximately \$152 million across 40 different property holdings. As the chart above shows, the CLP portfolio produced a modest 3% of aggregate DNR portfolio revenues in fiscal year 2005.

Scope of Review

As highlighted above, the State Legislature is seeking an evaluation of the CLP. This evaluation covers eight areas of interest:

1. Acquisition underwriting procedures,
2. Property management,
3. Portfolio construction and management strategy,
4. Qualifications of personnel managing and operating the CLP,
5. Cost structure,
6. Review of investment performance,
7. Appraisal of values of properties currently in the CLP, and
8. Potential alternatives to the CLP.

As might be expected, several of these areas of interest are interrelated (e.g., investment performance will depend on the appraised value of the properties). In reviewing these areas of interest, PCA:

⁵ *Op cit.*, the IRC Report, Volume 5, p.1.

⁶ See, for example, *Op cit.*, the IRC Report, Appendix D.

1. Interviewed DNR Staff on August 31, 2006 in their offices and on September 22 in PCA's offices. These interviews provided, among other things, an understanding of the environment and culture in which the CLP operates.
2. Conducted telephone interviews with a sample of lessees from specific DNR-managed properties.
3. Performed desk reviews of numerous DNR documents, State statutes and budget information, and data pertaining to the CLP. These documents included, but were not limited to:
 - a. Reports published by the DNR
 - i. State Trust Land Management: An Evaluation of Effectiveness and Efficiency, A Report of the Independent Review Committee to the Commissioner of Public Lands, December 2004
 - ii. Report to the Legislature: Options for Increasing Revenues to the Trusts: Comparison of Returns from Investing in Real Property and in Permanent Funds, January 2003
 - iii. Transition Lands Policy Plan, June 1, 1988
 - iv. Final Asset Stewardship Plan, January 6, 1998
 - v. Strategic Plan for the DNR 05-07 Biennium
 - vi. Strategic Plan for the DNR 07-09 Biennium
 - vii. DNR 2005 Annual Report
 - viii. DNR Economic and Revenue Forecast, June 2006
 - ix. Asset Allocation Strategy for Washington Upland Trust Lands, October, 2003
 - x. DNR Commercial Real Estate Program presentation to the Board of Natural Resources, 2002
 - xi. Various State laws pertaining to the activities of the DNR
 - xii. State Investment Board Performance reports for the Permanent Funds
 - xiii. State Investment Board Policies for the Permanent Funds
 - b. Other internal DNR documents
 - i. DNR Policy Manual
 - ii. Various DNR Memoranda
 - iii. Various Board of Natural Resources meeting notes
 - iv. Property level acquisition process documents
 - v. Property level operating statements and lease documents
 - c. Other documents
 - i. Responses to requests for information from:
 1. Kennedy Associates, Seattle, Washington
 2. WCM Advisors, Seattle, Washington
 3. Commercial Sales & Leasing Section of the Real Estate Division of the State Lands Department of the State of Arizona
 - ii. Financial statements from select publicly-traded commercial mortgage REITs

4. As highlighted above, PCA gathered data from three comparable investment programs. Two of the programs PCA reviewed involved the management of institutional real estate that focused on investing in Washington and/or the Northwest. Specifically, PCA utilized the following private industry comparables: Kennedy Associates Real Estate Counsel, LP (Kennedy) and Washington Capital Management (WCM), both private firms with significant institutional real estate expertise headquartered in Seattle, Washington. As a dedicated institutional real estate investment advisor, Kennedy manages a total of \$6.5 billion in institutional real estate for numerous investors and approximately \$400 million of commercial real estate in the State. WCM manages approximately \$1 billion in real estate, of which approximately \$200 million is focused in Washington. In addition to these two firms, PCA also used the State of Arizona State Land Department's Sales and Commercial Leasing and Sales Section of its Real Estate Division (the AZ CLSS) for certain points of comparison. The AZ CLSS is a relatively mature commercial leasing program that produces approximately 2½ times more revenue than the CLP. For purposes of comparison, information utilized from these programs included (i) property acquisition and appraisal procedures, (ii) property management methods, (iii) processes for developing portfolio strategies, (iv) resumes of investment personnel, and (v) cost structures associated with managing the specific portfolios.
5. Reviewed relevant documentation and data from other institutional-quality real estate investment programs that PCA believed represent "best practices" or industry standard approaches to a specific relevant aspect of managing commercial real estate assets.
6. Engaged the Portland office of Cushman & Wakefield to conduct appraisals on the CLP portfolio holdings. Cushman & Wakefield is a leading provider of financial services to the real estate industry with global capabilities. The professionals of Cushman & Wakefield Portland conducted the majority of their appraisal activity during late October and early November 2006.

Findings

1. The CLP portfolio consists of 40 holdings having an appraised value of approximately \$152 million. The CLP has been in existence for approximately 20 years, operating under different DNR administrations having varying philosophies about trust revenue diversification and role of the CLP.
2. The statutory foundation for the creation of the CLP is the 1984 Transitions Land Act (the 1984 Act). Prior to enactment of the 1984 Act, the DNR was responsible for managing 26 of the 40 holdings. The DNR inherited these holdings over time in a non-strategic fashion. The remaining 14 holdings are transactions that took place after the 1984 Act became law. These latter

“Post-1984” transactions now account for the majority of the CLP’s fair value and revenue and best represent the strategic intentions of the CLP.

3. There is a clear mandate within the DNR to (i) diversify revenue, (ii) balance investment return between current income and appreciation sources, and (iii) utilize a spectrum of ownership structures to make investments in the best interest of DNR’s beneficiaries.
4. The sporadic funding of the CLP over the last 20+ years has resulted in a program that is, at best, providing only marginal benefits to the DNR and its beneficiaries. At the end of Fiscal 2005, CLP revenue amounted to only 3% of total DNR program revenue. The limited contribution of the CLP to date can be attributed, to a substantial degree, to several constraints placed on the DNR and CLP.
5. The CLP is not a stand-alone program, but rather is a component of the DNR’s broader Leasing Program. As a result, all matters of CLP implementation take place under broader DNR policies and Transition Lands Program procedures.
6. Given the context within which the CLP operates, its governance policies and procedures are appropriate and reasonable.
7. The CLP’s **acquisition underwriting procedures** are reasonable and consistent with underwriting procedures utilized by other institutional investors. As expected, CLP’s underwriting procedures require an additional layer of review versus what we found occurring in private practice. As a result, the duration of a CLP acquisition underwriting process is typically longer than what occurs among the private firms we sampled.
8. The CLP’s **property management** process and capabilities are appropriate. Of the 40 holdings, eight are improved properties where DNR is the beneficial owner (and managed by CLP staff). The other 32 holdings are ground leases that require no property management on the part of DNR. For three of the eight improved property holdings, the CLP has outsourced the property management function to external property management firms. All three firms are well-regarded institutional-grade organizations. The other five properties are single-tenant properties where the lessees have significant interest in maintaining their properties to specific corporate standards. In these instances, the CLP provides an absolute minimum level of property management services, with the exception of agreeing to tenant improvements or other capital projects. PCA’s conversations with a sampling of DNR lessees indicated they were satisfied with their property management arrangements.
9. PCA believes that all property management (including tenant improvements) should be outsourced to avoid any perceived or potential conflicts of interest.

If an investment fiduciary is receiving property management fees from real estate holdings it is holding in trust for an investor/beneficiary, a perception might develop that an investment fiduciary could seek to raise property management fees and/or reduce property management services, which could prove detrimental to the investment's long-term return. In addition, to the extent that property management fee income can be viewed as material to the investment fiduciary, such income may influence the fiduciary's propensity to sell a property. To address these potential issues, the investment fiduciary should develop procedures align itself with its investor's interests. One solution for doing so is negotiating for the external services of third-party property managers.

10. Valuations of improved properties within the CLP portfolio were not updated on a scheduled basis. We believe this lack of an ongoing valuation process is substandard. Over the last two-to-three decades two valuation standards have emerged. First, industry best practices have evolved toward receiving third-party appraisals every year. Second, industry standards utilize rotating 3-year third-party appraisals supplemented by annual internal appraisals/valuations. Regardless of the approach used, such a valuation process is critical for monitoring the total return path of an institutional real estate portfolio.
11. The **portfolio construction and management strategy** of the CLP has historically been opportunistic and "bottom up" in nature, with the major emphasis being on generating current income. This process has evolved over time, given the CLP's unique set of operating constraints. PCA found this framework to approximate those utilized by the other institutional peers. That said, the peer institutions did (i) impose certain broad formal strategic guidelines upon their portfolios to ensure a reasonable level of diversification and risk management and (ii) focused on generating total returns for their investors. In addition, holdings within the CLP portfolio (whether in aggregate or just the improved properties) were marginally to materially smaller than those held by the private practice institutions. This characteristic is important to consider to the extent that the DNR wishes to expand the CLP materially in the future.
12. The **qualifications of the personnel** managing and operating the CLP are reasonable and appropriate. One key issue is that all professionals dedicated to the CLP have very senior tenure at the DNR. There is not a "second generation" of professionals being groomed to continue operating and expanding the CLP.
13. The **cost structure** of the CLP is reasonable. The cost structure of the CLP (including the mandated 30% allocation of revenues) was appropriate when assessed against public company (REIT) comparables and local investment advisor comparables. When compared against the State of Arizona's

commercial leasing program, the CLP's costs were significantly higher. However, the State of Arizona's Department of Lands operates completely differently from the DNR, with no fixed allocation of revenues and a commercial leasing program with very different mandates.

14. Budgeted CLP costs (as a percent of CLP revenues) are significantly below the 30% allocation level. After factoring in both the internal operating CLP budget and an estimate for potential property-level tenant/capital improvements (which the RCMA is expected to cover), estimated CLP costs amount to approximately 16% of total CLP revenues. DNR staff indicates that any excess revenues produced by the CLP are allocated to support other trust programs.
15. The **investment performance** of the CLP portfolio was in-line with its investment performance benchmarks. Given the lack of precision associated with the benchmarks, such relative performance comparisons provide, at best, *an indication* of competitiveness. That said, PCA estimated the CLP portfolio's annual internal rate of return to be 11.1% since 1999, the inception point of reliable DNR data. The SeaTac NCREIF MSA benchmark produced an annual IRR of 11.4% over the same period. The privately-managed Kennedy Washington-based portfolio produced an annual IRR of 11.6%. The differences in performance are largely due to structural and risk tolerance characteristics among the respective portfolios. One additional finding is that while the CLP portfolio's holdings appreciated at a higher rate than holdings in their peer portfolios, the yield on CLP portfolio was lower. This finding highlights the need to review lease/rent negotiation procedures to ensure yields are being maximized. Cushman & Wakefield's comments also infer this need.
16. As of 10/31/2006, the **appraised value** of the CLP portfolio was approximately \$152 million. Based on this appraisal amount and DNR cost figures, holdings within the CLP portfolio have produced approximately \$33 million of unrealized appreciation in addition to the income generated. 95% of the appraised value resides in 19 holdings acquired since 1984, the year the Transitions Land mandate was formalized. Further, over half of the appraised value and over half of the CLP portfolio's income emanates from four properties: I-90 Lake Place, Boulevard Center, Fred Meyer, and Jansport. These holdings represent the core positions of the portfolio.
17. Cushman & Wakefield found the recordkeeping and information systems associated with operating the CLP portfolio to be below industry standards. Shortcomings were particularly evident for those properties that were less institutional in nature (for example, the 21 pre-1984 holdings). While Cushman & Wakefield found DNR staff highly capable and knowledgeable, extracting information on specific properties proved difficult and challenging.

18. Independent of PCA, Cushman & Wakefield also noted that several statutory constraints likely reduce the DNR's ability to operate competitively within the institutional real estate marketplace.
19. There are two groups of options for considering ***potential alternatives to the program***. First, there are alternatives for enhancing the existing program. Second, external alternatives to the existing program warrant discussion. Section VIII reviews both groups of potential alternatives. In summary, PCA identifies and discusses the merits of the following:
- a. Alternatives for Enhancing the Existing Program
 - i. Maintain the status quo
 - ii. Develop a more discretionary governance platform for the CLP
 - iii. Loosen certain statutory constraints that limit the CLP's investment activities
 - iv. Calculate total returns for the CLP portfolio consistent with NCREIF standards
 - v. Ensure that all property management functions are executed by independent third-parties
 - vi. Develop CLP management continuity plan
 - b. Viability of External Program Alternatives

PCA believes that in order for the CLP to make an appropriate contribution to the overall DNR effort, the CLP must expand. The recommendations above reflect the necessity to streamline the CLP in some form in order for such an expansion to occur as smoothly as possible.

B. Background on the Commercial Lands Program

As of June 30, 2006, the Department of Natural Resources (the DNR) managed approximately \$100 million of assets categorized as commercial real estate (the “Commercial Lands Program” or “CLP” for this report). The impetus for the creation of this portfolio and other non-timber portfolios was the passage of the 1984 Transition Lands Act (the 1984 Act). The 1984 Act introduced two key aspects to DNR’s land management strategy: (i) flexibility to invest in non-timber types of income-producing properties and (ii) a requirement that DNR not deplete either the publicly-owned land base or the publicly-owned forest land base.⁷ Prior to the passage of the 1984 Act, state statute required that all proceeds generated by sales/exchanges of DNR transitional lands be either deposited into the Permanent Fund, which is managed by the State Investment Board, or reinvested in public lands that had the characteristics of timber and/or aquatic lands within the DNR land portfolio.

Subsequent to the passage of the 1984 Act, the DNR formulated a Transition Lands Policy Plan in June 1988. Within this policy, there was clear direction to diversify DNR property holdings into non-timber property types:

“The department will actively pursue a program of diversified property investments to reduce the risk of the variability of income.”⁸

In addition, the Transition Lands Policy Plan also stipulates that:

“For transition lands, structuring investments to balance current income and asset appreciation will be the preferred policy.”⁹ And “The department will consider acquiring various types of real estate ownership interests that meet the investment policies of this program.”¹⁰

Given these policy considerations, which were affirmed in the 2003 Report to the Legislature¹¹, the CLP remains an important strategic component of the DNR’s long range objective of creating a more diversified revenue stream for its beneficiaries.

Funding of the CLP

As highlighted above, the 1984 Act provided additional flexibility to the DNR to reposition existing underperforming land holdings into properties with a higher and better use and that might also assist in diversifying the overall DNR trust portfolio. Pursuant to the 1984 Act and RCW 79.66 (passed in 1977), the primary vehicle

⁷ Boyle, Brian and Stearns, Art, Transition Lands Policy Plan, DNR, June 1, 1988, p. 5. Also, RCW 79.66.010.

⁸ *Ibid*, p. 34.

⁹ *Ibid*, p. 32.

¹⁰ *Ibid*, p. 10.

¹¹ Report To The Legislature, Options for Increasing Revenues to the Trust: Comparison of Returns from Investing in Real Property and In Permanent Funds, January 2003, p.5, Recommendations III, V, and VI.

designed for implementing such property repositioning is the Land Bank. The Land Bank, which is a transition account managed by the DNR, is a formal mechanism for trust lands to be sold and to be replaced so that no permanent disposition of lands occurs.¹² The DNR utilizes the Land Bank to sell or exchange unproductive properties and provide resources to acquire and/or develop viable income-producing properties.¹³ In addition, lands may be repositioned within specific trusts when in the best interests of a trust's beneficiaries.¹⁴ Since 1989, only \$21.7 million of property has been allocated to the Land Bank for sale or exchange. In fact, no assets have been allocated to the Land Bank since 2002 (see table below). Offsetting the Land Bank inactivity have been direct land bank exchanges occurring through two other subaccounts within the Real Property Replacement Account (RPRA), which was created in 1992.¹⁵ Using the RPRA accounts, the DNR has transferred approximately \$150 million of property. Over half (over \$82 million) has been transferred into commercial property transactions.

DNR Land Exchange Activity, 1989-2006

Replacement Trust Acquisitions 1989-2006

Part A

Sources of Funding	2003-2006	1989-2002	1989-2006	% of Total
Direct Transfer Replacement (RPRA)	37,300,884	32,156,490	69,457,374	40.1%
Trust Land Transfer Replacement (RPRA)	8,395,750	59,129,886	67,525,636	39.0%
Land Bank (RMCA)	0	21,618,250	21,618,250	12.5%
Other appropriations:	0	14,240,315	14,240,315	8.2%
Community & Tech College	263,000			
Total	45,959,634	127,144,941	173,104,575	100.0%

Part B

Property Type	2003-2006	1989-2002	1989-2006	% of Total
Forest	8,693,400	55,590,686	64,284,086	37.1%
Agriculture	23,766,234	2,504,255	26,270,489	15.2%
Commercial	13,500,000	69,050,000	82,550,000	47.7%
Total	45,959,634	127,144,941	173,104,575	100.0%

Part C

Trust	2003-2006	1989-2002	1989-2006	% of Total
Scientific School	1,060,643	0	1,060,643	0.6%
Common School	44,635,991	122,555,341	167,191,332	96.6%
Community & Tech College	263,000	1,400,000	1,663,000	1.0%
Other Trusts	0	3,189,600	3,189,600	1.8%
Total	45,959,634	127,144,941	173,104,575	100.0%

Source: DNR

While transfers of \$150 million sound significant, it is modest in relation to the aggregate assets managed by DNR. Relating to the CLP, the \$82.5 million figure displayed above for the funding of commercial real estate translates to less than \$5 million of funding per year.

¹² Belcher, Jennifer M., Final Asset Stewardship Plan, DNR, January 6, 1998, p. 4.17.

¹³ *Ibid*, p. 4.17.

¹⁴ DNR Memorandum, February 4, 2002, RE: Asset Management Council, refers to RCW 79.08.180 and RCW 76.12.050.

¹⁵ *Op cit*, Report To The Legislature..., p. 18-19.

As highlighted in the table, transfer of assets through the Land Bank and RPRA accounts has been inconsistent and relatively modest, given the above objective (established in 1988) to “actively pursue a program of diversified property investments.” As a result, the CLP and the alternative investment programs have grown slowly since the passage of the 1984 Act over twenty years ago.

Constraints to Growth

The growth and scale of the CLP is constrained by several key factors:

1. Initial *potential* proceeds available to the CLP are fully dependent on DNR’s determination of underperforming land/property holdings across the overall DNR portfolio. If, in any one period, the DNR determines that no land is to be exchanged or sold out of the overall portfolio, then the Land Bank will receive no assets to potentially transition to the CLP or other supplementary programs.
2. The Land Bank is only allowed to hold a limited amount of land at any one time. RCW 79.66 limits Land Bank holdings to 1,500 acres.¹⁶ While there is reasonable rationale for imposing this limit, once this constraint is reached, no additional exchanges can take place through the Land Bank to raise additional proceeds for the CLP or other supplementary programs until all or a portion of the Land Bank’s assets are redeployed or transferred elsewhere.
3. The State Constitution limits the size of land sales to a maximum of 160 acres.¹⁷ At the margin, it is very likely this limitation constrains the State from packaging larger land parcels that might prove more attractive to potential buyers. Loosening this constraint would potentially accelerate the amount of proceeds/exchanges accessible by the Land Bank for later use.
4. The State Legislature’s appropriation limits associated with CLP purchases (via the Land Bank) constrains the CLP both in the number and size of transactions it can pursue over the course of its planning period. According to staff reports, the Legislature has historically appropriated \$20 million - \$40 million *per biennium* (or \$10 million - \$20 million per fiscal year) to acquire/obtain new property holdings with appropriation authority in the Land Bank and Natural Resources Real Property Replacement Account (NRRPRA).¹⁸ This appropriation level covers transactions that would not only serve the CLP, but other supplementary programs as well.
5. The State requires that State-owned land be sold only through public auction. This procedure is in sharp contrast to the industry-standard of negotiated real estate transactions in the institutional real estate marketplace. To the extent that private parties are willing to conduct transactions through a privately-negotiated or near-privately-negotiated process, the State is likely limiting itself to certain transactions that otherwise might prove accessible.

¹⁶ *Op cit*, Belcher, p. 4.17.

¹⁷ *Op cit*, Report To The Legislature..., p. 10.

¹⁸ DNR Briefing Material – Volume 5, November 15, 2004, p. 2. Also includes approximately \$5 million annual NRRPRA appropriation tied to Trust Land Transfers.

While it is difficult to quantify precisely, it is likely that, under less stringent constraints, the size and scale of the CLP and/or other alternative investment programs would be materially larger. This difference would have meant a higher level of diversification and an increase of the DNR trust beneficiaries' income stream, particularly over the last 22-year horizon.

Management of the CLP

The DNR considers commercial lands an alternative asset class within the overall portfolio of DNR trust assets. This perspective, along with the relatively small scale of the commercial lands segment in relation to the overall trust portfolios, has led to a process for analyzing and approving commercial land investments that relies upon DNR's existing management structure. In this respect, the CLP is not viewed as a dedicated or separate investment program, but is incorporated inside other DNR investment activities. The DNR views the CLP as one critical component (among several) of the broader Transition Lands Program adopted in 1988. Several of DNR's policies largely reflect the Transition Lands framework.¹⁹

At the staff level, there are four professionals solely dedicated to executing and monitoring commercial lands transactions. These professionals are involved in sourcing, underwriting and acquiring properties; property exchanges; property development; property management; and marketing commercial properties. This staff is supported by other internal staff and external consultants that provide additional critical transaction-oriented functions/tasks (e.g., initial appraisals, legal reviews of leasing contracts, etc.).

Based on conversations with DNR staff and DNR organization charts, these professionals coordinate with the director of the Asset Management & Protection Division and report to the director of the Product Sales & Leasing Division.²⁰ These latter two directors also are members of the DNR Asset Management Council (AMC). The AMC consists of twelve senior management professionals within the DNR. The AMC has the authority of approving all asset/property transactions within DNR. As a final step, all transactions are approved by the Board of Natural Resources.

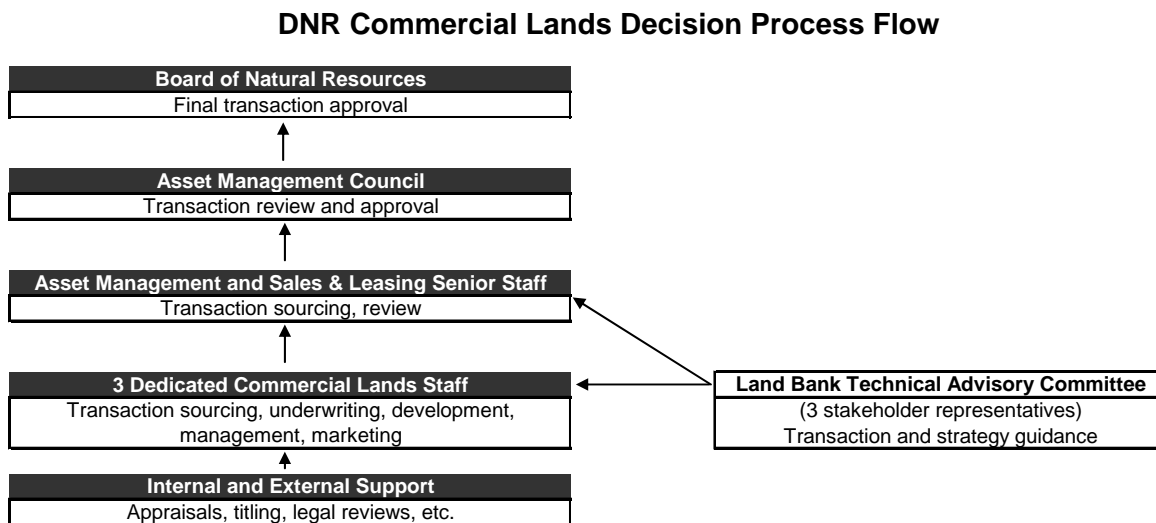
As discussed earlier, the Land Bank and the NRRPRA are the primary sources of funds (via direct transfers (NRRPRA) and private sales (Land Bank)) for the CLP and other land/property diversification mandates. The Land Bank utilizes the expertise of its Technical Advisory Committee (TAC) to analyze, assess, and make recommendations on Land Bank and other related transactions. Before a CLP or other repositioning-oriented transaction is reviewed by the AMC, staff and the TAC will have arrived at a consensus position on the merits of a specific transaction.

¹⁹ DNR Policy Manual, see for example, policies PO16-001, PO16-004, PO16-005, and PO16-012.

²⁰ *Op cit*, DNR Memorandum, February 4, 2002.

The TAC consists of three non-staff individuals that represent the key stakeholders in the DNR-managed trusts: (i) a designee for the Commissioner of Public Lands, (ii) a designee for the Superintendent of Public Instruction, and (iii) a designee for the State Treasurer. Importantly, through the TAC, each stakeholder group has the opportunity to consider and opine on the strategic direction of the CLP by providing guidance at the transaction level.

In summary, the process for the approval of investments and transactions for the CLP has several decision making levels intended to ensure that transaction due diligence is effective and that each transaction is consistent with the broader mandates of the CLP and Transition Lands Program (see chart below).



The Commercial Lands Portfolio

As of 10/31/06, the commercial lands portfolio consisted of 40 properties/leases with an appraised value exceeding \$150 million.²¹ The portfolio can be broken out into two major segments: (i) those properties/leases that the CLP inherited prior to the 1984 Act that the CLP is responsible for overseeing and managing and (ii) those properties/leases that the DNR has invested in since the passage of the 1984 Act (i.e., since the DNR began focusing on its diversification program). Under this framework, of the 40 properties/leases accounted for within the CLP, 21 qualify as inherited pre-1984 Act holdings and 19 qualify as post-1984 Act holdings. Estimates indicate that the overwhelming majority of the portfolio's value resides with the post-1984 Act holdings.²² Commensurate with this valuation allocation, the 19 post-1984 Act holdings also produce the overwhelming majority of the CLP's lease/rent revenue.²³

²¹ Based on Cushman & Wakefield appraisals. The portfolio consists of pre-1984 Act inherited properties and actively leased pre-1984 Act and post-1984 Act properties. Values based on initial present values of leases or purchase prices of properties.

²² Based on Cushman & Wakefield appraisals. Post-1984 Act property/lease appraised values amounted to over \$145 million.

²³ Based on Cushman & Wakefield and DNR data. Estimated annual income from Post-1984 Act properties/leases amounted to approximately \$9 million.

The Post-1984 Act CLP portfolio segment is diversified by property sector, with the majority of holdings invested in two sectors, retail, and office (see matrix below).

Allocation of Post-1984 Act CLP Assets, by Property Type and Transaction Size
(based on 10/31/2006 appraised value)

		Transaction Size - \$			Total
		<5M	>5M, <10M	>10M	
Property Type	Hotel	0.4%	0.0%	0.0%	0.4%
	Industrial	0.0%	0.0%	12.4%	12.4%
	Office	3.2%	4.9%	18.1%	26.2%
	Retail	6.1%	24.3%	30.6%	61.0%
	Total	9.7%	29.2%	61.1%	100.0%

Over 50% of the Post-1984 Act portfolio is allocated to properties/leases having appraised values exceeding \$10 million. Four transactions comprising this allocation are: I-90 Lake Place, Boulevard Center, the Fred Meyer Parcel, and Jansport. The remaining portfolio is allocated across fifteen smaller transactions.

The Post-1984 Act portfolio segment is also diversified by type of ownership interest. Seventy-five percent of the segment's appraised value is improved properties, while the remaining 25% is invested in ground leased land. Eleven transactions were ground leases and eight transactions involved improved properties.

C. A Review of Certain Aspects of the CLP

The Scope of Work section explicitly identifies several key areas of evaluation. The remainder of this report focuses on each of these areas, taken in the order as outlined in the original work order for the project.

I. Acquisition Underwriting Procedures

The real estate industry varies widely in terms of investment types and strategies. Because of this wide difference in types of real estate investments and purposes, the exact elements of an underwriting process will vary. The largest difference may occur in the due diligence portion of the process due to the nature of the proposed acquisition. In certain cases, more or less documentation is required as a part of the due diligence process depending on the scope of the acquisition. For example, in cases where the acquisition of a property includes new construction or rehabilitation of existing construction, additional measures may be required. In contrast, the acquisition of an unimproved property may require less cumbersome documentation. The process of underwriting and the procedures involved in acquiring various types of real estate investments, however, share some commonalities. In general, most underwriting processes include the following elements:

1. Preliminary Analysis

- Following the initial sourcing of a proposed acquisition, some type of preliminary analysis occurs to analyze its feasibility. This can involve varying types of analysis such as obtaining a limited or detailed appraisal of the property, or initial financial projections of the scope of the transaction.

2. Committee Review

- Once a proposed transaction has been deemed feasible, the industry standard is to obtain some type of review by a committee possessing some level of approval authority. This can include presenting some minimum level of due diligence review. In short, this provides a level of checks and balances by obtaining at least the minimal amount of approval necessary to begin the full due diligence process.

3. Due Diligence

- As mentioned, the steps involved and the documentation required in the due diligence process can vary depending on the scope of the acquisition. In any case, this step involves obtaining all of the necessary documentation to support the transaction.

4. Final Approval

- This step completes the process by obtaining the approval from the individual or committee involved in the final review of the underwriting process as well as approval of the proposed transaction. Typically, at this point in the process, all due diligence items have been collected, reviewed, and completed which completes the process. This step allows the transaction to be completed and/or finalized.

The DNR's underwriting process includes these basic elements. The section below reviews each step of the DNR's acquisition procedures and compares the overall process to those utilized by other institutional investors.

Step 1. Preliminary Analysis

The DNR Commercial Lands Group consists of four professionals with varied expertise in the real estate industry. Along with varied expertise among the CLP staff comes a wealth of contacts in the Washington real estate market. In general, prospective properties are sourced by way of contacts across local real estate markets. As highlighted above, the DNR often acquires replacement properties by way of exchange. This method of replacing property enhances the acquisition process, as there are several constraints on the department when selling State lands. In sourcing properties, the DNR often receives interest from outside parties for purchase of transition lands owned and operated by the DNR. In response, DNR staff has often requested that the potential buyer source commercial properties that would strategically fit into the CLP portfolio. This has led in the past to the DNR acquiring commercial properties by exchanging its non-income producing land holdings, which the prospective buyer can potentially benefit from, with commercial properties that fit the characteristics desirable to the CLP.

Once the DNR has sourced an appropriate commercial property, the four staff professionals discuss the feasibility of the property in an "ad hoc" manner. The purpose of this meeting provides a format for the DNR professional sourcing the project to get insight from the other three individuals and provides confirmation that the potential deal is appropriate. This initial meeting also provides for further discussion of the feasibility of the proposed project.

Letter of Intent (LOI) – Once there is an agreement among the four CLP staff, the DNR prepares and signs a non-binding Letter of Intent (LOI). At this point in the process, the LOI comes with a set of contingencies. These contingencies typically include approval by both the Technical Advisory Committee and the DNR Board, as well as other items necessary for approval in the due diligence process. The DNR CLP staff provided PCA with sample documents representing their underwriting process. One of the documents PCA reviewed was a sample LOI dated May 24, 2005 relating to the Walgreen's exchange in Des Moines, WA.

This LOI included contingencies relating to i) the terms of the formal exchange agreement, ii) current market value appraisal, environmental assessment, and property inspection, iii) review by the Technical Advisory Committee and DNR Board, and iv) terms of the Walgreen's lease.

Exchange Agreement – Upon completion of the LOI, DNR prepares an exchange agreement. This agreement, prepared by third-party legal council, defines the terms of the exchange of properties including the necessary documents to be delivered by each party. This document, in a similar manner as the LOI, provides adequate contingencies that allow the DNR to enter into the proposed exchange subject to the approval of the TAC and DNR Board. This agreement is also subject to completion of an updated appraisal of the subject property.

Appraisal – The DNR utilizes third party service providers to complete the appraisal (in addition, completed appraisals are then reviewed by a separate third-party appraisal firm). The appraisal is obtained early in the process and is used to present the proposed transaction to the TAC. PCA reviewed the following documents:

- Estimated Market Value – Thun Field Property: prepared by Trueman Appraisal Company (November 11, 2005)
- Appraisal of Walgreen's: prepared by Terra Property Analytics, LLC (November 10, 2005)

Included in the text of the appraisal is a market study. Since the acquired property includes a lease agreement, it is prudent to collect information relating to the market conditions relating to such a lease. Included in the appraisal reviewed by PCA was a section entitled "Retail Market Analysis." Since DNR's CLP program relies on long-term leases with single tenants, it is prudent to gather information on the markets condition. The market analysis section included in the sample appraisal included:

- Population
- Retail Sales
- Retail Supply
- Vacancy Rates
- Store Closures
- New Construction and Absorption
- Rental Rates
- Regional Retail Segmentation
- Investment Activity
- Des Moines Micro-Market

This information is essential to the financial forecast of the proposed transaction. As highlighted elsewhere, the DNR places more emphasis on holding properties

long-term with competitive lease rates as opposed to acquiring and disposing of properties for price appreciation.

Step 2. Committee Review

Following the Preliminary Analysis phase, the CLP team presents the proposed commercial property transaction to the Technical Advisory Committee (TAC). As highlighted in the previous section, the TAC consists of three non-staff individuals that represent the key stakeholders in the DNR-managed trusts: (i) a designee for the Commissioner of Public Lands, (ii) a designee for the Superintendent of Public Instruction, and (iii) a designee for the State Treasurer. Importantly, through the TAC, each stakeholder group has the opportunity to consider and opine on the strategic direction of the CLP by providing guidance at the transaction level. The TAC utilizes this varied expertise to provide advice and counsel to the CLP staff on the feasibility and strategic viability of the proposed transaction. The CLP staff prepares a comprehensive summary of the transaction to the TAC, which typically includes:

- Exchange Summary
- Property Appraisal
- Financial Information of Lessee
- Committee Approval Memorandum

The Exchange Summary provides the TAC with a brief description of the proposed transaction.

DNR's CLP staff provided PCA with the Committee Review provided to the TAC for the Walgreen's transaction highlighted above. This sample review included a description of each of the properties involved in the proposed exchange, and a description of the benefits to the DNR program by completing the exchange. In this example, the DNR was exchanging a non-income generating property with a commercial property having an absolute net lease (all expenses paid by the lessee). This structure provided lease revenues to the program combined with little to no ongoing management required.

As highlighted earlier, third-party property appraisals are obtained at the outset of the proposed transaction and are also included the TAC Committee Review materials. Finally, CLP staff collects financial information on the lessee. The 1988 Transition Lands Policy identified characteristics of potential commercial property holdings. Among the characteristics highlighted was "Quality Tenants." To achieve this standard, the CLP collects and reviews basic financial information on the lessee. This is highly important since the commercial property may be a single tenant property under a long term lease. Such was the case in the Walgreen's transaction as it was a sole lessee with a proposed seventy-five year lease (cancelable at the end of twenty-five years, and every five years thereafter).

Once the TAC has reviewed the information listed above, and vetted any potential issues relating to the proposed transaction, a Committee Approval Memorandum is signed by TAC members.

Step 3. Due Diligence

The CLP department includes the following documents in their due diligence process:

- Appraisal
- Property Inspection
- Phase I environmental reports
- Preliminary Title Guarantee
- Lease documents

Appraisal – As highlighted above, full third-party property appraisals are utilized by the department and include the following sections:

- Property Description
- Site Data
- Real Estate Tax Information
- Highest and Best Use
- Property Valuation (including description of valuation techniques)

As mentioned in the previous section, CLP staff obtains an MAI appraisal on the proposed property at the onset of the process. This appraisal is used as part of the CLP staff discussion and the presentation to the TAC. PCA reviewed the appraisals as part of the Walgreen's (Des Moines, WA) transaction. As mentioned, the DNR prefers to acquire replacement properties in the CLP by means of a land exchange. In these cases, both properties require complete appraisal.

Phase I Environmental, and Site Inspection Reports – In addition to the property appraisal, the DNR obtains a Phase One Environmental Site Assessment (ESA). The ESA includes a description of the purpose of the study and the methodology and scope of work performed. Its findings include a description of the property and surrounding area, geological conditions, historical review of the property, a regulatory review, and property reconnaissance.

For the purposes of this evaluation, PCA reviewed a sample ESA pertaining to the Walgreen's transaction. In this example, the DNR contracted the services of a third party to conduct the assessment. The applicable certifications of the preparer included Washington State Registered Geologist, certified Washington State Site Assessor, and an AHERA-Certified Asbestos Inspector.

Title Report

During the diligence process, the CLP department obtains a Preliminary Title Commitment. The CLP staff reviews this document. A copy of the document is also forwarded to the department's third-party legal council. If any changes to the document are necessary, legal council will communicate with the title company to ensure its completeness.

Lease Documents

Copies of existing leases are collected and reviewed by the CLP department. If necessary, the CLP will utilize its third-party legal council to draft new lease documents. In either case, legal council will review lease documents to ensure adequate lessee and lessor protections, and correctness of the documents. The Transition Lands Policy set out signatory requirements for leases depending on the duration of the lease in question. It is the desire of the CLP to structure long term leases to meet the objectives of the DNR and its beneficiaries. Therefore, leases containing terms in excess of 15 years require the approval of the DNR commissioner. Division managers are given the authority to execute lease agreements with terms less than 10 years.

Step 4. Final Approval

As the final step in the acquisition/underwriting process, CLP staff presents the proposed project to the Board of Natural Resources (Board). The 1988 Transition Lands Policy Plan indicates that the six-member Board is to make the final determination of the proposed transaction. At this point in the process, all information and documentation has been gathered and completed by the CLP staff during the Due Diligence process. As with the information presented to the TAC, the Board may make a resolution approving the transaction subject to certain conditions, although this is rare as all due diligence items typically have been completed, and the transaction is ready to close pending the review of the Board.

Information presented to the Board includes:

- Two to three page summary of the proposed transaction including a description of the benefits to the DNR and its beneficiaries.
- Board Resolution Document. This is the final document authorizing the sale and/or exchange.

This step in the process completes the acquisition/underwriting process.

Use of Third Party consultant reviews in the DNR Process

The DNR utilizes the expertise of third party firms to review certain documents through all phases of the underwriting process. The services of a commercial real

estate law firm are utilized to review documents such as title reports and lease documents. The DNR also uses an investment advisor to review the property appraisals, environmental report, and property inspection report.

Comparison to Other Washington Based Portfolio Managers

PCA gathered information from two institutional-grade, Washington-based commercial property investment advisors. The focus of this comparison was to evaluate the underwriting process on a portfolio of unlevered commercial properties. While there are some slight differences in the documentation and approval process between the DNR program and the other institutional portfolios, PCA found that basic components of each underwriting process were similar. The table below summarizes the process.

Steps in the Acquisition Underwriting Process

	Kennedy	WCM	DNR
Preliminary Analysis/Sourcing	√	√	√
Preliminary Investment Committee Review	√	√	√
Due Diligence:			
Document Review	√	√	√
Third Party Inspections	√	√	√
Appraisal and Market Analysis	√	√	√
Financial Projections	√	√	√
Final Committee Review and Approval	√	√	√

Sources: DNR, Kennedy Associates RFI response, WCM RFI response

The DNR process begins in a similar format to comparable investment managers, which involves a preliminary analysis by the deal sourcing team or other similar committee. This typically involves a meeting with the appropriate investment team to discuss the rationale for proceeding with the proposed transaction. After this step in the process, both DNR and its comparable peers employed some type of preliminary committee review. For both of the sample firms, preliminary information was presented to a Real Estate Investment Committee. The DNR's process is a bit more detailed, however, as it requires approval from two committees with different members. The peer firms obtained an initial and final approval from the same committee. In contrast, DNR has an extra layer of governance in the approval and review process.

After the preliminary review, both comparable firms begin the bulk of the due diligence process. There are some minor differences in the documentation gathered for review at this point due to the different transaction structures. Typically, however, the due diligence process involved document reviews of title reports, site surveys, lease agreements, lessee information, and other pertinent information.

The DNR includes as a part of its underwriting process an analysis of the financial condition of the proposed transaction. The use of a financial projection is slightly different from that of the two comparable firms due to the nature of the transaction.

For the peer firms, financial projections not only deal with the viability of the income stream from the property, but also give significant focus to the likelihood of price appreciation on the value of the property. Therefore, such financial projections will employ elements typically excluded in the DNR's process. Since the structure of the proposed transaction for the DNR portfolio focuses on a long-term holding horizon for a specific property, primary focus is given to the level of income derived from the lease. Therefore, the underwriting procedure provides analysis of the appropriate lease terms, and assuming the purchase of the property at a discount, the highest yield possible to the CLP portfolio.

Finally, the DNR's underwriting process follows the same procedure as comparable institutional firms in acquiring a final approval from the appropriate committee. With this approval comes a summary of the due diligence items that remained outstanding at the time of the initial committee review. Most importantly, however, is that this is the final approval from the appropriate parties that allow the proposed transaction to be completed.

Underwriting Timeline

The timeline under which the DNR completes its acquisition and underwriting process is generally the same, or slightly longer than industry averages. Any length of time in excess of industry standards is appropriate given the necessary extra layers of governance required under DNR guidelines as highlighted in the previous section. As mentioned, PCA reviewed the Walgreens acquisition as a sample of the DNR's typical underwriting process timeline. The Walgreens process began in May 2005 with a Letter of Intent and was completed in January 2006 with a presentation to the DNR Board. The transaction closed in April 2006. This period of approximately 11 months from the sourcing of the transaction to the close of the exchange is slightly longer than industry standard. Due to some of the nuances required in the nature of the transaction, as highlighted in the section above, (i.e., property exchange) and multiple committee reviews, the timeline is acceptable.

II. Property Management Post-acquisition

Property management is the process of overseeing the operating and maintenance of properties in order that they might meet their current income and appreciation return objectives.²⁴ Property management involves several disciplines including, but not limited to: maintaining and improving the physical characteristics of the property, maintaining good tenant relations, collecting rents and expense management, marketing rental space, pricing rentable space, negotiating and executing leases, managing property utilities, establishing and negotiating appropriate insurance coverages, and conserving energy usage and consumption.

The CLP portfolio consists of both ground leases and improved properties. By and large, ground leases do not require property management, since other parties own, lease and are responsible for the management of buildings and improvements. Of the CLP portfolio's 40 holdings, 32 are ground leases and 8 are improved properties. However, the eight improved properties constitute the majority of the CLP portfolio's market value and produce the majority of CLP revenue. Therefore, the focus should be on property management of these latter properties.

Before analyzing property management activities at these select properties, it is important to understand how property management responsibilities and costs are divided between property tenants and the DNR. According to DNR documentation, tenants are responsible for repairs and maintenance of properties and all associated expenses, while DNR is responsible for tenant improvements/remodeling and leasing commissions/expenses. These latter costs come out of the 30% expense allocation amount described under Section V – Cost Structure.²⁵

Across the eight improved properties, three properties utilize third-party property managers, while DNR manages the remaining five properties internally (see table below).

CLP Improved Properties Property Management Summary
(properties sorted by estimated annual rent)

Property Name	Property Type	Current Annual Rent	Property Manager
I-90 LAKE PLACE	Office	\$1,832,000	Trammell Crowe
BOULEVARD CENTER	Retail	\$1,803,000	Integrated Real Estate Services
JANSPORT	Industrial	\$1,125,000	DNR
COSTCO	Retail	\$584,009	DNR
KMART STORE	Retail	\$483,120	DNR
WALGREENS STORE	Retail	\$481,500	DNR
CREEKVIEW BUILDING	Office	\$474,000	GVA Kidder Matthews
WALGREENS STORE	Retail	\$446,000	DNR
Revenue of Improved Subtotal		\$7,228,629	
Total CLP Revenues		\$9,250,273	
Improved as % of Total CLP		78%	
DNR-managed Revenue as % of Improved		57%	
Third-party managed Revenue as % of Improved		43%	

²⁴ Wurtzebach, Charles, Miles, Mike, Modern Real Estate, John Wiley & Sons, Inc., 1991, Chapter 11.

²⁵ *Op cit*, Report To The Legislature..., p. 41.

The three property management firms utilized at the I-90 Lake Place, Boulevard Center, and Creekview properties are well-regarded. Each of the sampled private advisors' approved property manager lists contained at least one, if not two, of the three property managers. Each of the three property managers is being utilized to oversee several properties across the private advisor portfolios. These data points indicate that DNR has selected credible, well-regarded property management firms, when needed.

For the remaining five properties (Jansport, Costco, Kmart, and two Walgreen's locations), DNR does not outsource property management, but provides these services as part of its lease agreement with the tenant, if needed (i.e., there is no incremental cost for property management services). DNR staff indicates that the unique situations of these properties, as well as their single tenancies, keep property management requirements at a minimum. For example, while the two Walgreen's locations are DNR-owned properties, Walgreen's as a corporation takes on responsibility for maintaining the quality of their store brand. As a result, any remaining property management tasks are nominal. PCA's conversations with several of the tenants across these properties confirmed DNR's views. PCA also learned that these tenants were satisfied with DNR's approach to managing these properties.

It is PCA's opinion that fiduciaries investing in improved real estate on behalf of other parties should outsource the property management function, when feasible. This position was also confirmed by Kennedy Associates, who believes there is "inevitable conflict of interest" associated with providing property management simultaneously with fiduciary investment management services.²⁶ The main issue is that there is potential for a vertically-integrated property manager/investment fiduciary to improve its own profits by raising property management fees and/or constraining property management services which, in turn, could have a detrimental impact on a property's longer-term investment return. To the extent property management fee income is viewed as material, an argument can also be made that such income can influence the investment fiduciary's propensity to sell a property. By outsourcing property management, the investment fiduciary aligns itself with its investors by seeking to appropriately manage property management activities and costs to ensure long-term investment returns are enhanced in an effective manner. While the CLP's holdings are unique in that they are largely single-tenant properties or ground leases that may require only limited DNR resources, there is potential perception risk in this area.

Other Post-Acquisition Activities

In addition to property management, there are other potentially ongoing operational critical functions which might take place to enhance CLP's institutional investment process. Two of these functions, related specifically to CLP's improved property holdings are (i) ongoing valuations and (ii) hold/sell analyses.

²⁶ Kennedy Associates' response to PCA Request for Information, September 22, 2006, p.9.

From a total return perspective, it is critical to develop an estimate of an investment's fair value on a regular basis. Asset appreciation often dominates or offsets income returns. As a result, investors should be cognizant of changes in property values due to appreciation. Analyzing such changes might lead to tactical improvements in the investment process. This issue is of particular concern today as institutional real estate assets both in the Northwest and nationally have appreciated by unprecedented amounts over the last few years. In fact, many institutional investors have been net sellers of certain sectors of commercial properties ensuring that they "book" the significant gains accruing to their holdings. While the CLP admittedly operates under numerous constraints and may not be able to reinvest any sales proceeds (i.e., they may get directed to the Permanent Fund), such an awareness of property appreciation trends is still a critical aspect in the real estate investment process.

Typically, institutional real estate investors such as Kennedy and WCM get their properties independently appraised on a rotating 1- to 3-year cycle, depending on the property type and dynamics within a specific property sector market. In intervening years, internal valuations are performed.

Given estimated changes in valuation, institutional investors also typically conduct hold/sell analyses on properties annually to determine whether any property within a portfolio is a candidate for potential sale. Such an analysis includes analyzing current market conditions surrounding a property as well as its associated leasing risk. If a property generates evidence that it should be sold, the institutional investor in the property will develop a marketing strategy for the property. PCA did not see any evidence of hold/sell analyses on CLP's improved properties.

III. Portfolio Construction and Management Strategy

Over the life of the CLP, the DNR has applied an opportunistic, bottom-up approach to building the CLP real estate portfolio. By “bottom-up” we mean that policies and guidelines emphasize transaction-level considerations over any form of a broader macro/economic trend analysis or overlay.²⁷ Historically, if a qualifying and attractive transaction becomes known to the DNR, there will be an effort to close that transaction despite the potential strategic impact the transaction might have on the aggregate CLP portfolio.²⁸ For example, if the CLP portfolio is heavily weighted toward one specific property sector, that would not preclude the DNR from considering and/or executing additional transactions within that property sector if the DNR believed the specific property was viewed as attractive.

Other policies relate specifically to the DNR opportunistically working with private parties interested in acquiring DNR land to source potential commercial properties that might be exchanged into the CLP. Such properties might not otherwise be accessible because of appropriation limitations.²⁹ In such circumstances, the DNR might provide such an interested party with a broad outline of characteristics that would prove attractive to the CLP portfolio. With these broad guidelines, interested private parties have been successful in identifying exchangeable institutional-level properties that are then accessible to the CLP through the Transition Lands process. Again, in these circumstances the DNR must provide the “other side” of the transaction with reasonable flexibility to source attractive properties. Limiting the interested parties to a specific property sector or ownership interest type could make this approach to sourcing transactions unworkable.

DNR investment policies do limit the CLP to investing in only the industrial, office, and retail sectors while omitting/discouraging residential-oriented investments from consideration.³⁰ In this respect, the CLP is seeking to construct an institutional quality portfolio while seeking to manage and limit property management expenditures. There are, however, no specific limits/ranges on property sector allocations or other strategic factor exposures, which would explicitly recognize the intent to develop a diversified commercial real estate portfolio.

²⁷ See, for example, DNR Policies PO15 – 003, PO16 – 001, PO16 – 005, PO16 – 007, and PO16 – 013. While these policies provide key general guidelines and principles for investing in commercial real estate, there is no explicit discussion about how to strategically structure the commercial properties portfolio.

²⁸ Since managing investment risk *within* the commercial properties portfolio is critical, one might expect policies PO16 – 007 (Economic Analysis) and/or PO16 – 013 (Leasing) to explicitly discuss commercial property diversification elements, such as property sector diversification, transaction size diversification, ground lease vs. other ownership interests, within-state geographic diversification, etc.

²⁹ See, for example, PO16 – 011 (Relationship with Private Market).

³⁰ See PO16 – 005. The policy excludes residential-oriented ground leasing.

Portfolio Construction Strategies at Private-Practice Advisors

Given the above CLP policies and guidelines relating to portfolio strategy, we now review how the two private-practice advisors develop investment strategies for their Washington-based real estate portfolios. Interestingly, while both firms have certain explicit allocation/exposure limits on certain key strategic factors (such as geographic exposure and property sector exposure), the advisors responded by placing very strong emphasis on the quality of specific transactions. For example:

“In developing an investment strategy for a portfolio comprised solely of Washington-based assets, our primary emphasis would be on the characteristics of individual properties, regardless of location or property type.”³¹

Such comments reflect a strategic posture that is equivalent to that applied by the DNR in constructing the CLP portfolio.

In light of this finding, the private advisors also went into detail on how to strategically construct a Washington-based portfolio. An important consideration in this approach is that risk assessment is more qualitative in nature than what might otherwise occur with a larger-scale real estate portfolio having a much broader geographic mandate. A primary factor in arriving at this approach is the finding that there is really no viable Washington-based benchmark for assessing the investment results and risks associated with an institutional real estate portfolio.

Regional Allocation Strategies The leading institutional real estate benchmark, the NCREIF Index,³² contains only two Washington-based metropolitan areas: Seattle and Tacoma. While Seattle coverage is reasonable (with approximately 175 properties covering all property sectors), Tacoma’s coverage is poor (with only 10 properties). Vancouver, Washington is covered under the Portland, Oregon metro area, while properties in the Spokane, Bellingham, and the greater-Tri Cities areas are not even included.

The lack of a representative Washington-based investment benchmark means that it is virtually impossible to quantitatively develop default or neutral risk positions that can then be utilized to assess the absolute and incremental risk characteristics of a Washington-based real estate portfolio. In light of this challenge, the private advisors have developed other risk metrics and constraints to help manage risk at the strategic level. For example, Kennedy Associates refers to Washington State’s employment base distribution and property sector allocation by square footage to help determine an appropriate regional allocation within the state. As might be

³¹ Kennedy Associates’ Response to RFI on Washington Real Estate Assets, p. 4.

³² NCREIF: “National Council of Real Estate Investment Fiduciaries”

expected, Kennedy's strategic regional allocation strategy allocates 70% to 95% of its portfolio value to the Seattle-Tacoma-Bellevue-Everett area, with a proportion of core holdings in the Seattle, greater-Bellevue, and greater-Tacoma regions. Conversely 5%-30% of the portfolio would be invested across other areas in the State. Kennedy also indicates that liquidity issues associated with the State's smaller markets also must be taken into account.

Property Sector Allocation Strategies To determine a reasonable property sector allocation strategy, NCREIF appears to be a reasonable guide. Both managers establish fairly wide strategic allocation bands around the proportional sector allocations of the aggregated Washington-based MSAs utilized by NCREIF. Again, these strategy allocation bands serve largely as general guides. For example, as of 3/31/06, NCREIF's allocation to industrial properties within Washington was 31% of total Washington property holdings. Based on a strategic band investment approach, the private advisor would continue to invest in industrial properties as they became available. However, the advisor would likely begin to reconsider incremental industrial allocations and/or potentially consider selling some industrial holdings if the allocation breached, say, the 40%-45% allocation level and market conditions warranted such action.³³ Such limits provide a formal form of discipline over the investment process to ensure that the advisors are at least reviewing their exposure/concentration to this major risk factor.

Transaction Sizes Another factor that is evident in the private advisor portfolios that contrasts with activities within the CLP is the average size of property transaction (see table below).

Transaction Size Analysis – Select Private Advisors vs. CLP

Manager	Avg Acquisition Cost of Property	Equity Position in Acquisition	Property Acquisition Range				
			Minimum	Maximum	# of Acquisitions <10M	# of Acquisitions >10M, <50M	# of Acquisitions >50M
Kennedy	\$70.8	\$44.3	\$7.6	\$296.0	2	4	3
WCM	\$7.9	\$11.3	\$3.3	\$20.5	13	4	0
CLP Post-1984	\$6.1	\$6.1	\$0.2	\$17.3	16	3	0

Sources: DNR, Kennedy response to RFI, WCM response to RFI

Kennedy's average transaction size is multiples of that of the CLP, while WCM's average transaction and holding sizes are also larger, but more similar to the CLP. PCA readily recognizes that there are numerous exogenous factors and other issues that limit the CLP's potential universe of acquisition targets. In light of this issue, it is clear from the data above that the typical institutional-grade property is larger than the average CLP holding. Eleven of the above CLP transactions are ground leases, reflecting

³³ Kennedy, for example, has 20% strategic allocation bands around Office and Industrial sectors and slightly tighter bands around the Apartment and Retail sectors.

the more conservative, income-oriented approach taken in the CLP portfolio. One should expect ground lease transactions to be sized smaller than an analogous improved-property transaction. If the above analysis considered only the CLP portfolio's improved-property holdings, the transaction size rises to slightly below \$10 million, which is consistent with WCM's average transaction size, but materially below that of Kennedy.

Developing a view about transaction size is critical for two reasons. First, institutional investors in real estate typically have size limits on minimum-sized properties. Falling outside these limits could potentially reduce the future market liquidity of a property/holding if and when it should be sold. Second, executing smaller-scale transactions will likely be a constraint on the CLP's growth path. In addition, as the program grows, each individual transaction will have a smaller and smaller impact on the overall portfolio's investment results.

While the current CLP's average transaction size in and of itself is not an issue, it will be critical for the DNR to develop a philosophy of pursuing and positioning itself to potentially execute larger-scale transactions. Explicitly recognizing an ideal transaction size in commercial lands investment policies and reviewing this component on a periodic basis is not currently a procedure within DNR.

Total Return Orientation The over-arching mandate for the CLP and other supplementary DNR investment programs is to diversify income that flows to the various beneficiaries relying on DNR trust assets.³⁴ There is also recognition that investment returns should consist of an appropriate balance between current income and asset appreciation (i.e., consider a "total return" approach).³⁵ In fact, obtaining appropriate valuations of assets is also advocated,³⁶ indicating the importance of monitoring the potential fluctuating value/appreciation of invested assets on an ongoing basis. Such procedures are consistent with industry standards for tracking and measuring total return performance of diversified real estate portfolios.

Both Kennedy and WCM Advisors manage institutional real estate portfolios, consisting largely of improved properties, on a total return basis. Both firms stress that while income production is a critical risk mitigating factor within their investment strategies, they also invest with the intent to produce appreciation in the underlying values of their assets. Such a balanced approach assures that, at a minimum, the corpus of their investment portfolios maintain their long-term purchasing power.

³⁴ *Op cit*, Transition Lands Policy Plan

³⁵ *Op cit*, Transition Lands Policy Plan, p. 30-34.

³⁶ *Op cit*, Transition Lands Policy Plan, p. 31.

Reflecting this total return approach, both firms attempt to re-value their portfolio holdings on an annual basis and potentially at higher frequencies where specific events warrant such action (see prior section – Property Management Post Acquisition). Such a process provides a more “real time” assessment about how investment returns are being generated. A trend of one return component (income or appreciation) beginning to dominate the overall portfolio’s returns may be an indicator of necessary future portfolio restructuring.

In contrast, the State of Arizona’s return orientation within their commercial leasing program appears very similar to that of the CLP. Specifically, current income generation is the clear priority while pursuing appreciation-oriented investment strategies is a secondary consideration. This makes sense given that their portfolio is nearly 100% ground leases. Ground leases are bond-like in nature and do not produce any significant appreciation. In addition, the State of Arizona has no intention of selling these leases to third parties, similar to the CLP’s approach to its ground lease holdings.

The CLP portfolio consists currently of both ground leases and improved properties. Given this combination of holdings, a total return orientation appears reasonable. However, one challenge facing the CLP is the general requirement that a significant portion of the proceeds from sales of DNR trust assets must be either distributed to the beneficiaries or added to the principal balance of the Permanent Fund.³⁷ Under this condition, strategically restructuring a real estate portfolio could prove difficult. If the CLP would ever attempt to sell what it thought were overvalued assets, there is a high probability that, under current laws and policies, such proceeds could not be immediately redeployed into other appropriate commercial real estate assets. As a result, tactically selling CLP assets could result in a decline in the overall strategic value of the CLP portfolio. While certain land exchange guidelines may circumvent this requirement to some degree, these procedures may prove overly cumbersome versus the portfolio restructuring activities of other institutional real estate portfolios.

In addition to the above constraint, several other hurdles also appear to be impediments to having the CLP operate as a viable institutional total return-oriented portfolio. Such hurdles include, but are not necessarily limited to: (i) the 160 acre limit³⁸, (ii) the public auction requirement³⁹, and (iii) State appropriation limits⁴⁰.

Given the above factors, a realistic CLP portfolio structure is likely buy-and-hold in nature with significant emphasis placed on current income generation and principal

³⁷ *Op cit*, Transition Lands Policy Plan, p. 31.

³⁸ RCW 79.11.10. See also footnote 16.

³⁹ RCW 79.11.09.

⁴⁰ See footnote 17.

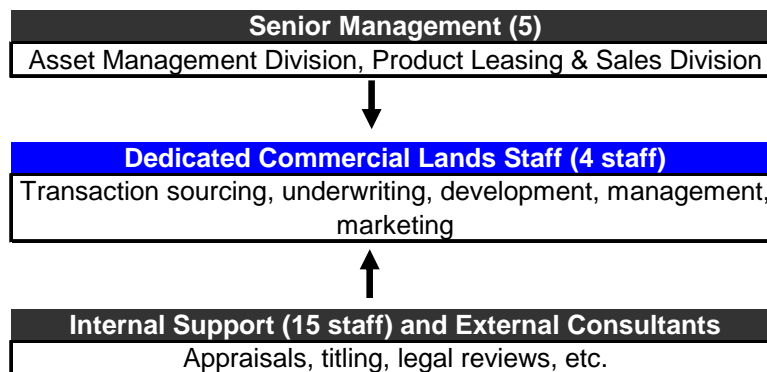
protection. To the extent that the CLP should pursue an investment strategy that is more total return-oriented, such a strategy would operate more optimally if it was free from several of the constraints highlighted above.

IV. Qualifications of the Personnel Managing and Operating the Program

In summary, PCA believes the qualifications of the staff/personnel managing and monitoring the CLP are reasonable and appropriate. PCA bases its conclusion on a set of comparables that provide an approximate indication of the resource requirements needed to manage a program having a scale similar to the CLP.

Based on DNR information, the DNR has allocated 3.8 full-time equivalent (FTE) personnel to manage and monitor the CLP. Currently, there are four dedicated personnel focusing specifically on CLP activities. These professionals, in turn, are supported by other DNR senior management and project-based support systems (e.g., appraisal and legal contract support) that are both internal and external to DNR (see chart below).

Commercial Lands Management Structure



All dedicated and senior management participating in the CLP have significant tenure at DNR. Average DNR experience exceeds 18 years. In addition, those professionals involved with the CLP all have advanced degrees, including several Doctors of Jurisprudence (JDs) and one PhD. In fact there is an average of 1.2 advanced degrees per CLP-related professional. Legal backgrounds typically prove highly advantageous in this asset class, given the potentially significant level of customized contract and title/lien negotiations associated with each transaction. Across key CLP personnel, two professionals have experience related to real estate portfolio management

The above characteristics compare favorably to those characteristics exhibited by the two Washington State-based private-practice firms we surveyed. Kennedy, a highly-regarded dedicated institutional real estate advisor based in Seattle, manages approximately \$6.5 billion in institutional real estate and approximately \$1 billion of properties located in Washington State. In total, Kennedy retains 37 real estate investment professionals, nearly all of which came to Kennedy with significant real estate management experience. While all but one of Kennedy's professionals have a college degree, seventeen (or less than half) have advanced degrees. In terms of manpower, Kennedy employs ½-of-one professional for every \$100 million managed.

The CLP, on the other hand, employs in excess of three dedicated professionals per \$100 million.

WCM, the other private-practice firm PCA reviewed, manages approximately \$1 billion in institutional real estate assets, much of which is focused in the Northwest and Washington State, specifically. WCM employs 10 dedicated institutional real estate professionals, with nearly all having related institutional real estate experience before arriving at WCM. Six of the ten WCM real estate investment professionals have advanced post-secondary degrees. WCM employs 1 professional per \$100 million of real estate asset managed.

The State of Arizona's Commercial Leasing and Sales Section (AZ CLSS) is a group within the Arizona State Department of Lands' Real Estate Division. Given the larger scale of commercial leasing within Arizona versus other Western states, it is not surprising that the AZ CLSS retains significant staffing. As of their latest organizational charts,⁴¹ the AZ CLSS consists of 17 budgeted positions and is the largest section within the Real Estate Division.⁴² Requirements for these positions typically require Bachelor's degrees in business, finance, or related fields. A few positions seek advanced degrees.⁴³ According to AZ CLSS staff, currently approximately 10% of positions require staffing. Based on this level, PCA believes the tenure with AZ CLSS is likely to be in the range of 5 to 10 years.

Professionals overseeing the CLP have an average DNR tenure of approximately 18 years. This duration of experience at the organization is both valuable and potentially detrimental. On the positive side, those DNR professionals playing a role with the CLP have significant institutional memory of the CLP, its evolution, and its function and purpose within the broader DNR asset portfolio. In addition, the high level of tenure also indicates that, from a procedural standpoint, CLP professionals likely function smoothly within the broader DNR structure. This ability typically allows DNR to execute CLP-related investment activities in a straightforward manner with a minimum of administrative obstacles.

On the other hand, the average level of DNR tenure is two-to-three times longer than what is exhibited at the other surveyed organizations. Average tenure at the two private-practice firms ranges from 6+ years to 8+ years, while tenure within the AZ CLSS is estimated to be similar. While this lower average tenure reflects significant recent hiring on the part of these organizations, a key point is that the lower average tenures reflect planning on the part of both firms to institutionalize their investment management processes across two or more generations of professionals. This transitional aspect is absent from the CLP's current management structure. In addition, retention of new personnel over time should help to invigorate an

⁴¹ Provided directly from AZ CLSS staff.

⁴² Other sections within the Real Estate Division include: Director, Planning, Rights-of-Way, and Engineering. Other divisions with Arizona's State Lands Department are: Administration and Resource Analysis, Forestry, Natural Resources, Land Information Title & Transfer, and Southern Arizona Real Estate.

⁴³ See www.azstatejobs.gov. As of October 4, 2006, the Land Department listed four positions consistent with AZ CLSS position titles.

organization with new ideas for practice management. One additional major factor contributing to the retention of professionals is the ability to grow, whether in the form of an expanding private practice, or the expanding role of a specific investment program such as the CLP.

V. Cost Structure of the Program

In summary, PCA believes the cost structure of the CLP is reasonable when assessed against a range of comparable entities engaging in similar investment activities. Admittedly, these comparables cover a wide spectrum of investment approaches and should be viewed as, at best, an indication of reasonableness rather than as precise benchmarks.

As discussed under the Scope of Review section, PCA used three forms of comparables: (i) a select group of publicly-traded real estate investment trusts (REITs) that emphasize constructing real estate investment loan portfolios, but may also pursue other real estate investment activities, (ii) two Seattle-based private institutional investment firms having significant Washington-based real estate investment operations, and (iii) the State of Arizona's commercial leasing program, which currently generates approximately three times the revenue as the CLP.

As a point of reference, the CLP is considered part of the broader management activities of the DNR. By State Law, the State legislature grants the DNR the authority to retain a pre-specified level of revenue generated by DNR-managed state assets for trust and program management purposes.⁴⁴ Historically, this appropriation level has been 25% of revenue. The definition of revenue includes both asset sales proceeds and current income. The legislature granted an increase in the management fee to 30% of revenue for the 2005-2007 biennium.⁴⁵ Given the above fee allocation process, DNR "management fees" attributed to the CLP have grown steadily over the last several years (see table below).

CLP Revenue and Associated DNR Management Fees
(\$ in millions)

Beinnium	Total CLP Revenue	Yearly Average	Avg. Annual Growth	Mgmt. Fee Allocation	Estimated Biennial Mgmt. Fee Appropriation	Estimated Avg. Annual Mgmt. Fee	Growth in Fee
99-01	11,993	5,997		25%	2,998	1,499	
01-03	14,289	7,145	9.2%	25%	3,572	1,786	9.2%
03-05	15,609	7,805	4.5%	25%	3,902	1,951	4.5%
Fiscal 06	8,790	8,790	12.6%	30%	na	2,637	35.2%

Source: DNR internal documents

The significant increase in management fees associated with the 2006 fiscal year is due to both the change in the management fee allocation as well as favorable revenue growth within the CLP.

⁴⁴ *Op cit*, Report To The Legislature..., p. 41. With respect to the commercial leasing program, the revenue allocation covers leasing commissions and tenant improvements, but does not cover repairs and property maintenance expenses. These are covered by tenant and are typically paid to a property management firm.

⁴⁵ Washington State DNR Strategic Plan 2007-09 Biennium, p. 18.

For specific improved properties (i.e., I-90 Lake Place, Boulevard Center, and Creekview), DNR has retained external property management firms to execute minimal levels of property management. Historically, these costs have amounted to slightly less than 1% of total CLP revenues. Using this figure, along with the 30% DNR management fee allocation, gives an aggregate cost figure of 31% of property revenues as a comparable that one can use to assess the CLP program versus other real estate investment programs.

As highlighted under Section II, with respect to improved properties, certain property management costs are split between the tenant and DNR. Tenants are responsible for repairs and maintenance of properties and all associated expenses, while DNR is responsible for tenant improvements/remodeling and leasing commissions/expenses. These latter costs, to the extent they are incurred, come out of the 30% expense allocation discussed above.

Private Market Comparisons

A comparison of CLP's management fee allocation to the public REIT investment programs indicates a cost structure that is high, but not unreasonable (see table below). These companies, which focus largely on commercial leasing, other real estate financings, and real estate equity, manage large-scale, national-scope real estate portfolios with market values often exceeding \$1 billion in market value. While, at best, such companies represent only a rough comparable to the CLP, one would expect that such companies would exhibit some form of economies-of-scale from a cost standpoint versus a smaller-scale, more local program such as the CLP. From this standpoint, based on the data below, the CLP cost structure appears reasonable.

Operating Cost Structure, Selected Publicly-Traded Financial REITs

	Financial REIT Ticker Symbol	NNN	CT	GKK	SFI	NRF	AHR	ABR	JER	Average	Min	Max
i.	Total Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
ii.	FFO	59%	39%	41%	44%	33%	23%	51%	56%	43%	23%	59%
iii.	FFO before Interest Expense	84%	74%	80%	83%	83%	87%	88%	72%	81%	72%	88%
iv.	Total Dividends and Interest Paid	81%	75%	85%	87%	92%	91%	86%	69%	83%	69%	92%
	% of Revenues used for expenses (i - iii)	16%	26%	20%	17%	17%	13%	12%	28%	19%	12%	28%
	% of Revenues paid to investors/lenders (i - iv)	19%	25%	15%	13%	8%	9%	14%	31%	17%	8%	31%

Source: various 2005 annual reports and 10K filings.

Operating costs, as a percentage of revenues (not including gains from any property sales), ranged from a low of 8% to a high of 31% across this set of public REITs focusing on real estate finance. The average expense allocation was 17%-19% of revenues (not including interest expense and debt finance costs), depending on the method used to determine operating expenses. While the CLP's cost structure is at the high end of the range and above average, it is interesting that it is even within range given the scale differences between the CLP and these companies' portfolios.

PCA also analyzed the cost structures of institutional portfolios that were more similar in scale to the CLP and more local in nature. The sample portfolios used in this case were representative Northwest/Washington-focused portfolios managed by Kennedy Associates and WCM Advisors, two private Seattle-based institutional management firms. Both firms manage significant allocations of Washington-based properties. Kennedy Associates currently manages approximately \$400 million in a portfolio of six Washington-based properties. Kennedy has been an active developer in the Northwest for approximately 20 years and has purchased and sold another \$250 million in Washington real estate in addition to its current portfolio. WCM Advisors currently manages both a Northwest-oriented commingled real estate fund and a handful of Washington/Northwest-based separate accounts. In aggregate, WCM Advisors currently manages over \$200 million in Washington-based properties through these two investment formats.

Costs to manage these programs come in the form of (i) operational costs associated with managing specific properties (i.e., the difference between gross property revenues and their net operating income) and (ii) management fees associated with specific portfolio management activities.

Based on responses to requests-for-information received from each of the above two managers, their overall management costs are slightly higher than those of the CLP (see table below).

Cost Structures of Washington-based Private Practice Real Estate Portfolios

	Investment Manager	Kennedy	WCM	Average
i.	Total Property Revenues	100%	100%	100%
ii.	Net Operating Income	67%	70%	69%
iii.	Estimated Property G&A Costs (i - ii)	33%	30%	32%
iv.	Investment Management Fees as % of Revenues	5%	9%	7%
v.	Total Management Cost as % of Revenues (iii + iv)	38%	39%	38%

Sources: Kennedy response to RFI, WCM response to RFI.

As the table highlights, property general and administrative costs were the largest component of these institutional Washington-focused real estate investment portfolios. Management fees made up at most about one-quarter of these portfolios' overall costs. Both of the selected firms typically own improved properties on behalf of their investors. This investment structure contrasts to that of the CLP, which consists of both improved property investments and ground leases and likely has some bearing on the underlying respective cost structures.

Comparison with the State of Arizona

As highlighted earlier, the State of Arizona's Commercial Leasing and Sales Section differs markedly from the CLP, but it might prove to be a useful comparable because it is a mature and dedicated sales and leasing program of a scale materially larger than the CLP.

The cost structure of the State of Arizona's commercial leasing program varies dramatically from that of the CLP. The State's Agency of Natural Resources (AZ NR) does not receive a fixed allocation of revenues attributable to assets under the AZ NR's authority. The AZ NR's budget is developed through the State Legislature's General Fund budgetary process.⁴⁶ Based on reported figures, in fiscal 2005, the AZ NR had \$56 million in expenditures.⁴⁷ Arizona's State Land Department is a component of the AZ NR and oversees all land-related transactions within the State. For fiscal 2005, it produced \$367.1 million in revenues.⁴⁸ Using these figures, AZ NR costs amounted to slightly over 15% of State land revenues.

The Sales and Commercial Leasing Section of Arizona's State Land Department confirmed that the appropriations process was used to determine expenditure authority. The head of this section indicated that beyond limited amounts of capital spending authority, she has virtually no involvement in budgetary decisions. Because of these factors, attribution of a specific allocation of costs (particularly as a fixed percentage of Department or Section revenues) is beyond the scope of this analysis. As a result, the AZ NR cost proportions discussed above could, at best, only be used as an extremely rough gauge of appropriate cost levels for a roughly equivalent program.

CLP Usage of 30% DNR Allocable Amount

The 30% allocation of the gross lease revenues extracted from CLP portfolio revenues is reasonable when compared to the peer groups' cost structures highlighted above. The difference between gross revenues and distributable income typically accounts for (i) overhead associated with employee retention and other administrative costs, (ii) property maintenance costs, and (iii) the reserving and/or payments for capital improvements.⁴⁹ With respect to the DNR, the 30% revenue allocation pertaining to the CLP covers (i) and (iii), but not (ii).⁵⁰

According to documentation provided by the DNR, the 2005-2007 biennial internal direct operating budget for the CLP program is \$1,044,000 (or \$522,000 per year).⁵¹ This amount accounts largely for items relating to item (i) above plus agency-level overhead and amounted to approximately 6% of CLP annual revenues. The DNR has also budgeted approximately \$450,000 per year for potential capital improvements, which amounts to 5% of CLP annual revenues. While this figure is budgeted each biennium, actual capital/tenant improvements could vary significantly.

⁴⁶ *Op cit.*, the IRC Report, Appendix C, p.39; email from AZ Commercial Leasing and Sales Section staff; other sources.

⁴⁷ State of Arizona Annual Financial Report, Fiscal Year Ending 2005, p. 4.

⁴⁸ Arizona State Land Department, 2004-2005 Annual Report, p. 32.

⁴⁹ The above assumes investments are unlevered. If leverage exists, financing costs would also be included.

⁵⁰ See prior comments. Given the structure of most of the CLP's holdings and that most improved properties involve single corporate tenants, property management expenses have been negligible.

⁵¹ DNR response to PCA Preliminary List of CLP Information and Data Request.

PCA estimates that institutional-grade real estate portfolios incur capital/tenant improvements that range from 9% to 17% of annual real estate revenues.⁵²

Based on the figures above, the CLP budget accounts for 11% of CLP revenues. Allowing for some cushion for additional capital improvements (say 5% of revenues), approximately one-half of the 30% CLP revenue allocation is likely allocated to the other trust programs managed by the DNR. Based on the revenue estimate found in the table on page 25, this excess allocation is estimated to be at least \$1.3 million per year.

⁵² Source: various annual reports of leading institutional core real estate investment funds (e.g., RREEF, Prisa, etc.).

VI. Return Performance To Date

PCA was able to obtain approximately 7½ years of operating data on the CLP portfolio from the DNR.⁵³ Since CLP holdings have not been appraised/valued on a scheduled basis, utilizing time-weighted returns to analyze performance (one acceptable industry standard) is impossible. As a result, PCA computed and analyzed various historical internal rates of return (IRRs) for both the CLP portfolio and its benchmarks (another industry standard approach). An IRR is that rate of return that reconciles the beginning value of a portfolio with its ending value and intervening cash flows. It answers the question: “If I know the portfolio’s beginning market value, the ending value, and interim cash flows, then what return did the portfolio produce?” Institutional investors utilize this return method extensively when analyzing privately-held investments such as real estate and private equity.

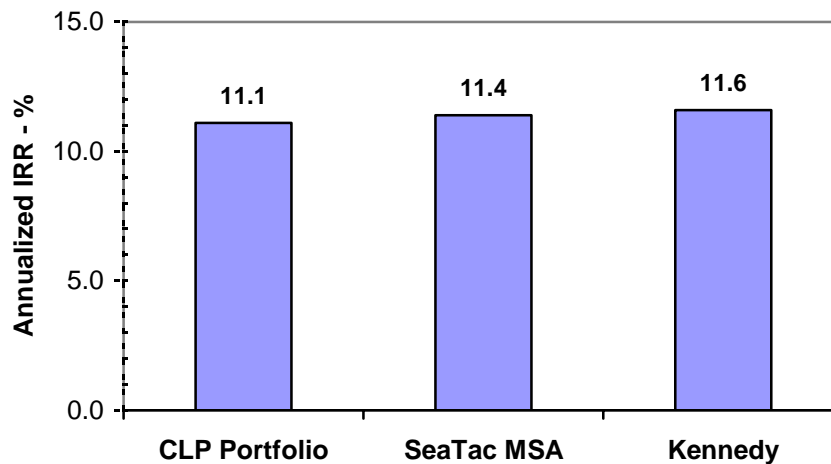
Based upon the above data and methods, PCA found the CLP portfolio’s investment results to be competitive with the selected benchmarks. Given the severe limitations of the benchmarks used, this finding represents only an indication of the CLP portfolio’s relative performance and should not be taken as a highly precise finding.

For comparison purposes, PCA utilized two benchmarks: (i) a market-weighted composite of the Seattle and Tacoma MSA’s NCREIF investment performance time series data and (ii) the time series of Kennedy Associates’ Washington-only investment portfolio. Neither of these benchmarks fully represents the investment performance of a viable Washington-only opportunity set. NCREIF does not isolate investment performance in other important regional sectors, such as Vancouver and Spokane. The Tacoma MSA region is also poorly represented. In addition, the Kennedy portfolio may not be representative of the risk tolerance associated with DNR’s trust beneficiaries, particularly given Kennedy’s emphases on development and the hotel sector. In light of these issues, these real estate benchmarks are the best available and should provide at least a basic indication of the CLP portfolio’s ability to produce competitive institutional-grade real estate investment performance.

Given the above caveats, we found that the CLP portfolio produced long-term investment results that were in line with these benchmarks (see chart, next page).

⁵³ Sources included DNR annual reports, internal DNR documents, and appraisal data furnished by Cushman & Wakefield.

Investment Performance Comparison*
(CLP vs. SeaTac MSA & Kennedy Associates Portfolios)



*CLP and Kennedy returns are computed net of all costs and management fees. SeaTac MSA benchmark returns are computed net of a 0.75% expected management fee.

The IRRs of the benchmarks represent an investment return an investor would have achieved if the investor invested in either of the respective benchmarks using the same funding schedule and amounts that occurred in the CLP Portfolio over the last seven years. It is not surprising that the CLP Portfolio modestly underperformed the Kennedy portfolio: First, at the margin, Kennedy invests in several properties that exhibit some form of development risk. The slightly higher Kennedy IRR reflects compensation for incurring this incremental risk. Second, Kennedy also utilizes a modest degree of financial leverage. If a portfolio's return is positive and greater than the cost of the leverage, some benefit will accrue to the portfolio's total return (as was the case with Kennedy). In contrast, the CLP portfolio consists of ground leases and unleveraged improved properties. Given the lower level of risk, one would expect the CLP portfolio's return to be modestly lower.

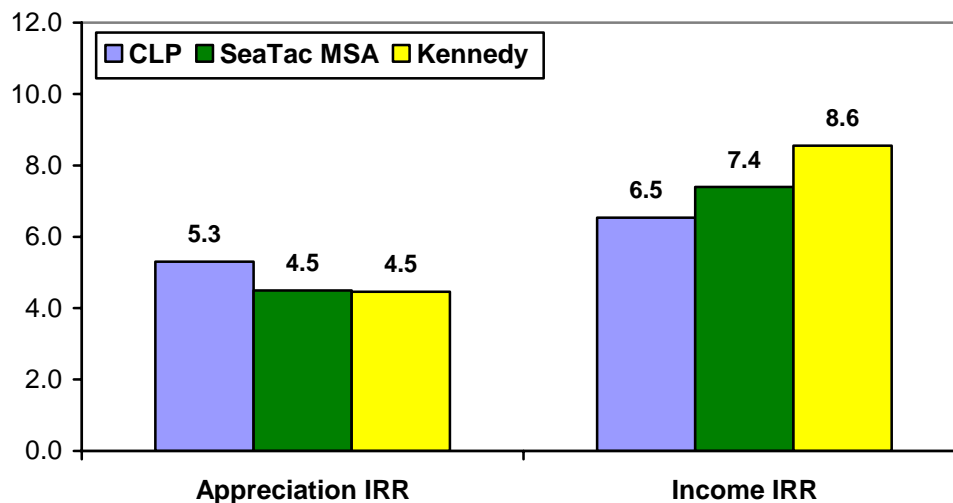
Another factor impacting performance differences among these portfolios is their varying portfolio structures. The main structural difference is that the SeaTac MSA emphasizes the office and industrial property sectors while the CLP portfolio emphasizes retail and the Kennedy portfolio emphasizes the retail and hotel sectors. Since the SeaTac MSA is not an accurate representation of the fully commercial property opportunity set in Washington, it is important to not place too much emphasis on the performance differences of these portfolios. What is valuable is the indication that the CLP Portfolio produced investment results roughly equivalent to these alternatives.

Further investment performance attribution can take place by segregating the portfolios' IRRs into two subcomponent IRRs: an appreciation IRR and an income IRR. Comparing the appreciation IRRs helps to determine whether changes to the CLP portfolio's property values are generally consistent with other properties held by the peer benchmarks/portfolios, providing a limited indication of relative property

quality. A comparison of income IRRs provides an indication of how the CLP portfolio's leases are being managed.

Parsing the portfolio in this fashion reveals that the properties in the CLP portfolio, on average, appreciated at a higher rate than properties in the respective benchmark, but produced a lower income return than respective peer properties (see chart below).

Component IRR Comparisons*
(CLP Portfolio vs. SeaTac MSA & Kennedy)



*Component IRRs will not necessarily sum to the previously presented respective total IRRs due to differences between arithmetic and geometric calculations that arise as the time period of the calculations lengthens. CLP and Kennedy returns are computed net of all costs and management fees. SeaTac MSA benchmark returns are computed net of a 0.75% expected management fee.

As discussed in the next section, the bulk of CLP property appreciation comes from its improved property segment. All of these properties have been purchased since the Transition Land mandate took effect. The majority of these properties reside within or near the I-5 or I-90 corridors and within major metropolitan areas. The strong appreciation of these properties relative to the appreciation of properties within the respective benchmarks indicates that the CLP has been successful in investing in relatively high-quality properties at reasonable valuations that the market, in turn, has viewed favorably over the last real estate investment cycle.

In contrast, the income return generated by the CLP portfolio was 75%-85% of the income returns generated by properties in the respective benchmark portfolios. There appears to be two factors driving this result: First, 30% of the portfolio consists of ground leases, many of which are smaller holdings inherited by the DNR prior to 1984. These holdings have produced below-market income returns for an extended period of time. Second, as alluded to in Cushman & Wakefield's appraisal review, lease escalations/rent increases have been below-market across several holdings. A review of the procedures DNR uses to structure its lease agreements is warranted in order to enhance its ability to adjust rents.

VII. Summary of Program Properties' Appraisals

Based on the latest appraisals of the CLP portfolio's properties, the market value of the CLP portfolio was approximately \$152 million as of 10/31/2006. This amount compares favorably with an overall cost figure of approximately \$109 million.⁵⁴

To conduct the appraisals, PCA subcontracted this aspect of the project to the Portland, Oregon office of Cushman & Wakefield. Cushman & Wakefield is a leading global financial service firm serving the real estate industry. A summary of Cushman & Wakefield's findings and valuations is attached to this report. While Cushman & Wakefield utilized numerous metrics to estimate property values, the income method of determining value proved to be the preferred choice. Under this approach, Cushman & Wakefield estimates the projected lease income from a property or ground lease and applies an appropriate discount rate to that projected income to arrive at a current value for the specific holding.

As expected, the overwhelming value of the CLP portfolio resides in those properties that DNR has acquired since 1984 (the "Post 1984" properties). The appraised value of these properties amounts to approximately \$145 million, or 95% of the CLP portfolio's appraised value. The remaining \$7 million of value resides in 21 leases on smaller custodial properties that the DNR inherited prior to 1984. This year (1984) represents the inception of the Transition Lands Program.

Also not surprising is that four properties account for over 60% of the Post 1984 portfolio and over half of the entire portfolio's appraised value and rent. These properties are: I-90 Lake Place, Boulevard Center, Fred Meyer, and Jansport. Together these properties constitute the core holdings of the CLP portfolio. These properties have a combined value of nearly \$89 million and have expected lease income of nearly \$6 million.

Based on Cushman & Wakefield and DNR figures, the Post 1984 portfolio has produced significant unrealized capital appreciation in addition to a reasonable level of income. Comparing the \$145 million appraised value figure with the \$109 million initial cost figure associated with the Post 1984 properties, these holdings have produced \$36 million in unrealized appreciation, growing cumulatively by nearly 33%. Of these amounts, the "Big Four" properties cited above produced approximately \$25 million in unrealized appreciation and have grown by over 41%. Clearly, it is this small group of larger-scale properties that drive the investment performance of the overall CLP portfolio.

Independent of PCA, Cushman & Wakefield also produced two other relevant findings. First, confirming PCA's findings, Cushman & Wakefield indicated that the several statutory constraints that the DNR operates under may prove to be a

⁵⁴ Per DNR figures.

significant impediment to maintaining a favorable risk-adjusted return profile. Cushman & Wakefield highlights several properties that exhibited significant leasehold interests and also observes that current purchase and sale constraints limit the DNR's ability to restructure the portfolio.

Second, Cushman & Wakefield found the recordkeeping and property-level reporting systems to be below industry standards. They highlighted that this inadequacy is particularly evident for the numerous smaller ground lease holdings.

VIII. Potential Alternatives to the Current Program

This report provides a series findings and recommendations relating to the CLP for policy makers to consider. In summary, the CLP, given its unique mandate and numerous constraints, is managed reasonably. Under the scope of work for this project, PCA is required to identify and discuss potential alternatives for the CLP. Based upon our research and industry knowledge, alternatives range from potential improvements *within* the CLP to more substantial changes that might be viewed as potential substitutes for the CLP. Each suggested course of action possesses tradeoffs that warrant close examination.

As discussed in the Background section of this report, the CLP and other alternative investment programs managed by the DNR account for approximately 16% of total DNR revenue. This proportion includes revenue produced by aquatic lands. Excluding the aquatic lands segment (i.e., what remains are the combined upland segments), revenues from alternative investment programs account for only 10% of aggregate revenues. Within this proportion, agriculture accounts for two-thirds of the alternative investments' revenue and the CLP accounts for the other third.

In consideration of the above allocations, the revenues associated with the alternative investment programs are too small to have a meaningful diversifying impact upon aggregate DNR revenue. This is particularly the case with the CLP, where its revenues account for only three percent of total DNR revenues. Clearly, at this level, the CLP is having, *at best*, only a marginal diversifying impact upon the aggregate DNR revenue stream – this, after twenty-plus years since the concept was initially implemented. While developing a more precise “optimal” proportion for the CLP portfolio is beyond the scope of this report, PCA believes that both the agriculture and CLP components should be larger in scale to have a meaningful diversifying impact on total DNR revenues. Having *each* of these two programs account for ten percent of total program revenues is an appropriate minimum level where each of these programs begins to play a significant role in the production of DNR revenue. At this level, for example, the CLP portfolio would be approximately three times the size it is today. An increase of this magnitude would not only begin to impact the pattern of DNR revenues materially, but the scale of these programs would be significant, likely requiring decision-makers to seriously consider developing dedicated governance structures and investment platforms to manage these portfolios.

The potential alternatives discussed below generally reflect the assumption that there is a high level of interest in expanding the alternative investments programs, specifically the CLP. Given this assumption, the current state of the CLP indicates that there are potential areas of change, both marginal and material, that could better position the CLP to expand in the future. Another assumption implicit in these alternatives is that the CLP will continue to pursue both improved properties and ground lease holdings. The remainder of this section describes potential alternatives,

both in terms of enhancing the existing program and in terms of examining the viability of external program options.

Alternatives for Enhancing the Existing Program

An important assumption in discussing most of the alternatives below is that it would be desirable for the CLP to have governance, policies, and procedures that allow it to compete effectively within the institutional commercial real estate marketplace.

Alternative 1: Maintain the status quo. The main advantages of continuing to manage the CLP as currently structured are that (i) the CLP is set up to operate effectively, given current DNR and statutory constraints and (ii) the CLP is being managed in a cost effective manner. The main disadvantages with maintaining the status quo are (i) the CLP is a non-dedicated, non-discretionary program (i.e., under the DNR's existing decision-making structure) whose transaction-oriented procedures are less than optimal, (ii) there are several statutory constraints that cause the CLP to operate at non-institutional standards (e.g., the requirement to sell property at public auction – such an approach is rare in the institutional real estate marketplace), and (iii) there is a lack of a management continuity program in place.

Alternative 2: Develop a more discretionary governance platform for the CLP. As discussed earlier in this report, the CLP is not designed as an explicit investment program. Rather, DNR staff have operated within the DNR decision-making process to manage all aspects of the CLP portfolio. If the program is to evolve into a larger-scale program, it is critical that the CLP portfolio be supported by a decision-making process that is as nimble as possible. In this respect, taking more of a “program” approach to the CLP would prove highly valuable. In this respect, the concept is to create an investment approach that is more “investment advisory” in nature. One key aspect of this approach would be to adjust the governance structure of the CLP to be more discretionary. While there are likely several models of alternative governance structures, certain features might include (i) the creation of investment policies and procedures that are unique to the CLP, (ii) DNR decision makers delegating budgetary, operational, and certain transactional decisions to senior CLP professionals, (iii) DNR retaining authority to approve/revise CLP investment policies and procedures, (iv) senior CLP professionals developing investment objectives, strategies, and tactics for the program, with approval of senior DNR decision makers, (v) transaction size limits under which senior CLP staff operate with a reasonable level of autonomy (e.g., CLP staff has discretion to execute transactions under \$15 million; transactions exceeding this level require formal DNR approval), and (vi) reporting/monitoring requirements that meet DNR standards. We believe this structure would create a more autonomous and effective CLP that would prove more competitive within the institutional commercial real estate investment marketplace.

Other institutional investment organizations (e.g., advisors, endowment funds, the Permanent Fund) have retained the ability and discretion to buy and sell holdings and reconfigure their portfolios, while meeting the requirement to maintain the corpus

of the respective portfolio's assets. They distribute only portfolio income to their beneficiaries. While principal protection is a critical aspect of these funds' investment policies, they do have the discretion to sell holdings and reinvest proceeds within the portfolio without prior approval. A similar policy for the CLP portfolio would prove highly advantageous because it would allow the CLP to have more flexibility in executing its real estate investment strategy. In addition, since commercial real estate has income producing attributes, an appropriate mandate for the CLP portfolio would be to protect principal (and retain the ability to reserve/offset gains/losses, as in the Permanent Fund) while distributing only income.

Alternative 3: Consider loosening certain statutory constraints that limit the CLP's investment activities. As highlighted elsewhere in this report, several statutory requirements limit the CLP's investment capabilities. These constraints include, but are not limited to: (i) the treatment of sales proceeds (see above), (ii) the public auction requirement, (iii) the 160 acre sale limitation, (iv) the Land Bank 1,500 acre limitation, and (v) limited Legislative appropriations. Allowing the CLP to enter into negotiated transactions would bring it in-line with other institutional real estate investors, thus improving the marketability and liquidity of the portfolio. The other constraints often work in conjunction with one another to severely limit the CLP's investment options. For example, appropriations to the CLP have historically been low (on the order of \$5 million to \$10 million annually). This low level of appropriation automatically forces the CLP to turn to the DNR land exchange programs as a source of capital for its transactions. Such transactions, as a result, may involve more than two parties and introduce added complexities, significantly increasing the length of time it takes to complete a transaction. In addition, the above Land Bank constraints may actually curtail the CLP's ability to even execute a transaction. Typical institutional investors do not face these constraints. As a result, the CLP may find itself in a less-than-competitive position versus other buyers or sellers of a specific property of interest, particularly with respect to the improved property marketplace.

Alternative 4: Calculate total returns for the CLP portfolio consistent with NCREIF standards. The National Council of Real Estate Investment Fiduciaries (NCREIF) is the leading self-regulatory body of the institutional real estate investment community. NCREIF has developed performance reporting standards that are widely accepted. The fundamental components of these reporting standards are: (i) regular, scheduled appraisals of portfolio holdings, and (ii) quarterly recognition of a holding's net operating income (NOI). The appraisals are used to calculate appreciation returns for a portfolio, while NOI figures are used as a proxy for current income. These figures are combined, typically on a quarterly frequency, to determine a total return for both specific holdings and an aggregate portfolio. This approach contrasts sharply with DNR's current approach of computing return as current rent divided by the original cost of a holding. This latter approach does not account for changes in relative valuation of specific property. It is these changes in relative valuation that provide important strategic signals about whether certain holdings should be held or sold.

Alternative 5: Ensure that all property management functions are executed by independent third-parties. Based on DNR documentation, from a budgeting perspective, DNR shares in the costs of property management. Tenants are responsible for maintaining properties, DNR is responsible for tenant/capital improvements. DNR pays these latter costs out of the 30% revenue allocation. This structure is reasonable, but it appears that the CLP does not have an explicit policy indicating that it will outsource all property management functions. Such a policy would recognize that the CLP and its staff are solely in the investment management business and do not have any perceived conflict of interests associated with delivering property management services on its properties/holdings on behalf of its beneficiaries.

Alternative 6: Develop CLP management continuity plan. Currently, the CLP operates with four dedicated senior personnel with reporting lines up through the senior levels of the DNR. All professionals materially involved with the CLP have significant tenure with the DNR and each have been working with the DNR for at least 18 years. If and when these professionals leave and/or retire from the DNR, there is significant potential for a loss of institutional knowledge with respect to the CLP. Given the complexities associated with sourcing and executing transactions for the CLP, this issue is critical. Given these findings, a key objective to enhance the long-term viability of the CLP is to create additional CLP positions that would likely be specialized and/or junior in nature, but would add an appropriate level of hierarchy that would allow for a smooth transference of institutional memory in the future.

The Viability of External Program Alternatives

PCA examined the viability of transferring the investment activities of the CLP to external parties under two options: either (i) an external private-market investment advisor or (ii) utilizing SIB expertise via, for example, the Permanent Fund. In either case, given the myriad of statutory requirements the DNR and its beneficiaries operate under, it is likely that these alternatives would require significant statutory and policy changes to allow for efficient implementation of a CLP-type program. Without such changes, PCA believes that outsourced management of the CLP would face many of the same challenges as the current program.

Under normal circumstances, practitioners executing investment strategy for each organization type (private-market advisor or the SIB) operate with significant investment discretion. In the case of private-market advisors, advisor-client arrangements typically utilize (i) separate accounts that give an advisor broad decision making authority within a “box” of client-defined parameters, or (ii) a commingled fund framework where investment policies and guidelines are established by the advisor to best meet a wide range of investor-client criteria. This is exactly the case with both the manager firms we surveyed for this study. In the case of the Permanent Fund, its investment policy explicitly requires the portfolio to produce income for its beneficiaries and protect principal. Within those parameters, the Permanent Fund investment policy grants the SIB a high level of investment

transaction discretion, with broad parameters for allocating portfolio assets to various sectors and security types within the public investment markets. Given these current investment discretion practices, under existing statutory requirements, it is very likely that utilizing either of these outsourcing strategies to manage a highly constrained CLP-type mandate could prove highly impractical.

In addition, neither the State constitution nor current investment policy allows the Permanent Fund to invest in private real estate holdings. Given this finding, there appears to be limited flexibility to incorporate other more risky asset classes as the Permanent Common School account within the Permanent Fund allows for modest exposure to publicly-traded equities. This limited precedent might support the inclusion of real estate within the Common School account. However, the five other state permanent fund accounts are constitutionally restricted to investing only in fixed income investments.⁵⁵ These findings indicate that it would require changes to the State constitution to include real estate holdings across all permanent fund accounts.

One final SIB-related issue relates to implementation challenges of a CLP-type investment program. SIB's strategy for investing in private real estate is to delegate the purchase and sale of properties to investment advisors utilizing the commingled fund, partnership, or separate account frameworks highlighted above. SIB staff establishes broad policies and guidelines for such mandates and then monitors the activities of its advisors to ensure compliance. SIB real estate staff does not focus on executing direct acquisition and/or sales of individual properties. In addition, SIB's real estate portfolio is broadly diversified, with only a modest fraction of its holdings located within Washington State. This investment process is in sharp contrast to the CLP, where the mandate is for DNR staff to focus specifically on executing Washington-based direct property transactions.

Given the above issues, PCA believes that, in order for external management of the CLP to become viable, significant statutory and investment policy changes would be required. Otherwise, employing external expertise that is not familiar with the unique aspects of DNR operations could very likely produce future unsuccessful results.

Should the DNR Abandon the CLP?

No. Doing so would be counter to over twenty years of policy development seeking to diversify timber revenues. However, in order for the CLP to assist the DNR in meeting its diversification objectives, the CLP must expand its size and operating scale. Operating the CLP as a minor ancillary asset class is not an optimal approach. The comments in this section of the report, while not all inclusive, reflect a view that the CLP needs to be streamlined so that the professionals having authority to manage the CLP portfolio can have the flexibility and autonomy to grow the program and that the CLP can be well-managed into the future. In addition, funding of the CLP (either through land exchanges or appropriations) should be material and

⁵⁵ See, "Permissible Investments" section, p. 3 of 5, WSIB Policy 2.25.100: "...only the Permanent Common School account has been constitutionally approved to hold equity..."

consistent until the CLP portfolio is able to support generating approximately 10% of total DNR revenues.

for **Pension Consulting Alliance Inc.**

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Appendix

Cushman & Wakefield Appraisal Summary Letter



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November 18, 2007

Mr. Neil Rue, CFA
Pension Consulting Alliance
514 NW Eleventh Avenue, #203
Portland, OR 97209

Re: Washington State Department of Natural Resources
Commercial Lands Program
Various Locations, State of Washington

Dear Mr. Rue:

This letter will serve as a follow-up to our meeting on Friday, November 10, 2006, when we discussed our findings with you and your colleague, Jeremy Theissen. We have completed valuations of each asset in the portfolio, referenced above, in accordance with our engagement letter of August 2, 2006. The intended users of this report are Pension Consulting Alliance ("PCA") and the Washington State Investment Board ("WSIB"). The intended use of this report is to assist PCA in its overall evaluation of the performance of the Washington State Department of Natural Resources ("DNR") Commercial Lands Program. As such, valuation is one component of this larger consulting engagement.

The valuation date is October 31, 2006. As per our engagement instructions we valued the **leased fee interest** of each property. We also attempted to calculate the projected rate of return on each property based on current income and leased fee value.

We found that record keeping was inconsistent and diffuse although the property managers are seasoned and very knowledgeable. We also found that the value of the asset and its yield, bore no relation, in fact was almost inversely proportional, to the difficulty in accessing and managing remote properties.

Most of the properties were inspected between October 19 and November 10. We did not inspect some remote properties where the land lease term was considered so extended that the reversion made only a de minimus impact on the present value of the leased fee. We felt confident valuing the leased fee based on the terms of the lease. The assets we did not inspect included the parking lot at the South Shore Mall in Aberdeen, the Trout Lake parcels, the commercial site in Omak, the lots that are master leased in Blaine and the Mar Don resort near Othello.

Attached to this letter are property summaries for each asset, together with condensed value roll-up spreadsheets reporting values and relevant rates of return. Our findings, conclusions and recommendations have been summarized in this abbreviated form to facilitate your reporting on business process performance to the WSIB. We can provide individual summary reports, which

we have created as electronic files fully conforming to the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Foundation, as may be needed.

Background

Pension Consulting Alliance was hired by the Washington State Investment Board ("WSIB") to evaluate the Washington State Department of Natural Resources ("DNR") Commercial Lands Program. Property valuations were considered a key component of the overall evaluation of these assets.

PCA retained Cushman & Wakefield, Inc. to appraise each of 37 properties in the portfolio and comment on observed operational practices relevant to the evaluation of Program management and performance. We understand that it has been the intent of the DNR to lease these lands at market rates dedicating the income to DNR trust beneficiaries.

It should be noted that the Commercial Lands Program does not involve or affect the management of agricultural land and timber, the primary mission of DNR. Instead, this program, which generally involves the management of leased land, has evolved beginning in the 1960's when public lands were opened up for commercial or recreational development. For example, some of the tracts, now leased out to private parties, included recreation-based waterfront sites created by public works such as dams, or commercial parcels at freeway interchanges created by highway construction projects during the 1950's and 1960's.

These land leases were frequently written for terms of up to 55 years with infrequent provisions for rent escalations. Not surprisingly, to the extent that rent lagged inflation, significant leaseholds were created favoring the tenants on many properties. Later, largely as a result of the Transition Land mandates beginning in the 1980's, DNR sought to invest in growing urban areas where land was leased to national credit tenants or master-leased improved properties were purchased. We found property valuations and investment performance on this latter type of asset to be higher and tracked with conventionally owned investment grade properties.

As a property manager, DNR faces certain limitations and constraints, unfamiliar to the private sector. They prefer to simply lease the land. If a property is improved they try and single-source the management because to do otherwise entails opening a public bidding process for services. Similarly, they can only sell property at public auction. Thus, to improve yield or rates of return, DNR would prefer an exchange to a sale. This may limit their alternatives when trying to improve portfolio performance.

The Commercial Lands Portfolio

The DNR divides management of the Commercial Lands Program between the east and west sides of the state. The west side assets are managed from Olympia, the east side from Spokane. We have analyzed the portfolio by recognizing both the east and west side divisions and creating a third category; improved properties. The improved properties are all managed out of Olympia.

The **west side** leased land portfolio consists of the following assets:

WESTERN WASHINGTON LAND INVENTORY

	DNR NO.	LESSEE	ADDRESS	SITE AREA	COUNTY
1	39-063374	South Shore Mall/General Growth	1017 S. Boone St., Aberdeen 98520	8.07	Grays Harbor
2	39-067091	Aerowood Animal Hospital	2975 156th Ave. S.E. Bellevue 98007	0.53	King
3	39-069276	Key Park Northwest, Inc.	2100 2nd Ave., Seattle	0.15	King
4	39-069982	Touchstone Corporation	15500 S.E. 30th Pl., Bellevue 98007	3.54	King
5	39-072986	FRED MEYER	6100 E. Lake Sammamish Pl. S.E., Issaquah	12.20	King
6	39-074432	Pacific Centers LLC (Eastgate Retail)	3181 156th Ave. S.E. Bellevue 98007	1.21	King
7	39-064758	H&S Assoc. (Port Orchard Retail)	2995 Mile Hill Dr., Port Orchard 98366	2.06	Kitsap
8	39-058985	Water Front Recreation	Approx. 10 mi. east of Cougar	88.40	Skamania
9	39-060397			4.00	Skamania
10	39-059983	John R. Blomberg	SW corner of 228th S.W. and Meridian Ave.	8.54	Snohomish
11	39-059909	June Malone	8545 to 8633 Semiahmoo Dr., Blaine 98230	36.70	Whatcom
TOTALS				165.40	

These 11 parcels include 165.4 acres and will generate \$1,775,589 in contract rent in 2006. This represents a rate of return of about 4.3% on the current market value of the leased fee interests. We have calculated that at least seven of these assets are burdened with leasehold interests because of land leases that have evolved to favor the tenant.

The **east side** land leases may be summarized as follows (see next page):

EASTERN WASHINGTON LAND INVENTORY

	DNR NO.	LESSEE	ADDRESS	SITE AREA	COUNTY
1	39-076011	U.S. Bank of Washington, NA	800 S. Columbia, Connell	0.98	Franklin
2	39-076805	MT II, LLC	SE quad of Rd. 68 & I-182, Pasco	12.27	Franklin
3	39-077755	Pasco Road 68 (David Black)	NE quad of Rd. 68 & I-182, Pasco	30.89	Franklin
4	39-053272	Mar Don Resort	8198 HWY 262 SE, Othello	11.00	Grant
5	39-053673	Mar Don Resort	8198 HWY 262 SE, Othello	5.36	Grant
6	39-057740	I 90 RV Inc. (Elmer Burnham)	658 Road L N.E., Moses Lake	29.25	Grant
7	39-067554	Bob Buress	1807 E. Kittleson Rd, Moses Lake	0.91	Grant
8	39-068485	Shilo Inn	1819 Kittleson Rd., Moses Lake	2.72	Grant
9	39-078317	Sunbanks Resort	57662 Hwy 155 N, Electric City, WA	197.55	Grant
10	39-068728	Duane G. Warren	P.O. Box 91, Trout Lake	1.00	Klickitat
11	39-068729	John Fuller	P.O. Box 225, Trout Lake	1.00	Klickitat
12	39-068730	Lanny Smith	P.O. Box 101, Trout Lake	1.00	Klickitat
13	39-068731	Terry & Lynn Welch	P.O. Box 142, Trout Lake	2.00	Klickitat
14	39-065576	Alpine Vet Clinic, Denise Krytenberg, DVM (James Gjesvold)	741 E. Riverside Dr., Omak	1.80	Okanogan
15	39-066084	Anthony Baker & Burns (Prop. Mgr)	E. 1912 & 1914 Sharp Ave.	0.16	Spokane
16	39-079118	Liberty Lake LLC	NE quad of Liberty Lake Interchange on I-90 & west of George Gee car dealership	32.00	Spokane
17	39-060167	Chewelah Peak Investments (Chewelah Ski Basin/49 Deg. North)	3311 Flowery Trail Rd, Chewelah	86.00	Stevens
18	39-060204	Flowery Trail Community Asso. (Chewelah Basin Ski Corp)	P.O. Box 1309, Chewelah, 99109	262.00	Stevens
19	39-063721	City of Chewelah	201 Holford Rd.	86.79	Stevens
TOTALS				764.68	

These 19 properties totaled 765 acres and should generate \$591,321 in aggregate income for an overall return of 4.6%. Many of these east side land leases were negotiated with a lower target rate of return, compared with the west side. These leases were originally negotiated for 55 years.

The third component of the Commercial Lands portfolio is actually comprised of **improved properties**, summarized below:

IMPROVED PROPERTY INVENTORY

	DNR NO.	Property	ADDRESS	Site Area	GBA	COUNTY
1	39-068477	Costco	3900 29th St. East, Fife, WA 98424	7.86	105,555	Pierce
2	39-069714	Boulevard Center	4028 to 4124 Tacoma Mall Blvd., Tacoma, WA 98409	8.7	121,552	Pierce
3	39-068951	I-90 Lake Place Building A	2001 N.W. Sammamish Rd., Issaquah, WA 98027	5.01		King
4	39-068952	I-90 Lake Place Building B	2005 N.W. Sammamish Rd., Issaquah, WA 98027	3.26		King
				8.27	125,422	
5	39-069982	Walgreen's - Des Moines	23003 Pacific Hwy. S., Des Moines, WA	1.43	14,820	King
				0.23		King
6	39-069412	Kmart Wenatchee	151 Easy Street, Wenatchee, WA 98801	9.01	107,838	Chelan
7	39-071061	Creekview Building	3350 Monte Villa Parkway, Bothell, WA 98011	4.212	46,000	Snohomish
8	39-074917	JanSport Warehouse	1202 Shuksan Way, Everett, WA 98203	10.02	203,818	Snohomish Snohomish
9	39-073750	Walgreen's - Mukilteo	10200 Mukilteo Speedway, Mukilteo, WA	1.96	15,016	Snohomish
		TOTALS		59.96	740,021	

These 9 assets will generate \$7,228,710 in net income in 2006, for nearly an 8.5% return on current leased fee asset value.

Scope of Work and Methodology Used

We undertook a complete appraisal process for each property. For each asset we considered all three approaches to value: the cost, sales comparison and income approaches. For the land-only valuations, a cost approach could not be applied. However, we found the driving approach for value of each of the leased properties was an income approach, whether it was land only or improved. On one property, the K-Mart in Wenatchee, we found recently vacant and simply applied a sales comparison approach, relying on sales of similar dark anchors. This approach tends to be conservative. If the DNR is able to find a suitable tenant for the property, there is potential for a material increase in the valuation of this property.

Except for the Wenatchee K-Mart, each of these assets was leased long term under varying terms and conditions. We first estimated the unencumbered fee simple value for the land only assets relying on comparable sales of similar vacant tracts. For the leased improved properties we found no significant difference between fee simple and leased fee interests. This was not the case with leased land. The difference between the fee simple and leased fee interests was a leasehold. This latter value must be understood if management seeks to improve yield or rate of return. In short, leasehold value is an indication of potential for improvement in property valuation.

In most cases, valuing the leased fee interest entailed creating a discounted cash flow model based on the terms of the existing lease. The model had three important components: annual cash flow projections, an estimation of reversion value, and selection of an appropriate discount rate.

Our data collection process involved the following:

- We identified and examined salient characteristics of each property and its location
- We considered regional and local demographic and economic data and trends which influence property value
- We interviewed DNR management, and where appropriate, the lessee to confirm operations and better understand the history of each asset
- We explored the future performance of each asset and evaluated whether the existing lease instrument entitled the DNR to share in any upside
- We researched and documented land sale and listing data, relevant to estimating site value, if vacant and available, to achieve its highest and best use
- We considered land lease rates to estimate an appropriate projected rate of return
- We researched and analyzed relevant improved sale and lease data relevant to the improved properties
- We developed appropriate discount rates for each cash flow model that reflect risk and return considerations for each asset.

Two critical components of our valuation deserve special comment: derivation of a **land lease projected rate of return**, and derivation of a **discount rate** used to process cash flow and reversion projections to present value.

We found that most of the DNR land leases did not specify a rate of return to apply to market value of the land. In fact, initial rates of return for land leases varied from 4%-5% of "market value" for some of the remote recreational sites, to 8% on some of the more recent land leases. We found that most long-term land leases are negotiated by state and Federal governments, including Port Authorities. Those rates typically run 8%-9% of appraised market value, and we tended to apply an 8% rate of return to measure market versus contract rent. Occasionally we

encounter performance or percentage clauses tied to the enterprise or operation of leasehold business. In general such additional income is discounted when modeling cash flows because performance premiums run with the enterprise, not the land per se.

Discount rates, sometimes referred to as internal rates of return, may be built-up or derived from various sources, yet seldom can they be directly extracted from market transactions the way, for instance, capitalization rates can be. We found that most published reports on discount rate trends, applicable to processing cash flows over time, were derived from investor surveys and were restricted to improved investment-grade properties, not land. We, therefore, opted to build-up a discount rate to reflect appropriate risk components, then bracketed a high and low range from which we could select an appropriate rate. Our typical analysis is shown below:

Assumptions: Discount rate = inflation + safe rate + risk			
	Low	Mid	High
Inflation	2.00%	2.50%	3.00%
Safe Rate	3.00%	4.00%	5.00%
Risk	2.00%	3.00%	4.00%
DR	7.00%	9.50%	12.00%

In some areas we found very low inflation, in others, very low risk on the lease. Thus our discount rates varied from 8%-9.5% for land only leases. Discount rates on the improved portfolio followed current market trends and tended to be lower.

At your request, we are only conveying our summary overview of our findings and tabulations reporting leased fee and leasehold values and calculating current projected rates of return. Such reporting is designed to facilitate your own analysis. *However, conveying our conclusions of value on individual assets to third parties, without an accompanying narrative report could be misleading.* In fact we have developed summary appraisal reports, as electronic files for each asset together with photographs, maps, aerial images and market data tabulations. In particular, our analysis includes discounted cash flow models valuing each lease.

Production of narrative reports for each asset was beyond the scope and budget of this engagement, but such can be published upon request for individual assets or the full portfolio.

General Findings

We have previously discussed many of our findings as we discussed the background of this engagement, described the types of properties appraised and explained our scope of work and methodology. Here we will again review our **general findings** relating to management and property performance, followed by summary value tabulations.

1. The intended use of this report is to assist PCA undertake an overall evaluation of the performance of the DNR Commercial Lands Program. As such, valuation is one component of this larger consulting engagement.
2. We found that record keeping was inconsistent and diffuse although the property managers are seasoned and very knowledgeable.
3. We found that the value of the asset and its yield bore no relation, in fact was almost inversely proportional, to the difficulty in accessing and managing remote properties.

4. Given that land leases were frequently written for terms of up to 55 years with infrequent provisions for rent escalations, we found that to the extent that rent lagged inflation, significant leaseholds were created favoring the tenants on many properties.
5. Rates of return on the improved properties were found to be higher and tracked with conventionally owned investment grade properties.
6. Reflecting statutory and appropriations requirements, DNR currently has a preference for property exchanges versus sales. Such constraints and preferences may limit their alternatives when trying to improve portfolio performance.

The tabulations shown below report our value conclusions for each component of the portfolio.

WESTERN WASHINGTON LAND LEASE VALUATION SUMMARY

	DNR NO.	LESSEE	ADDRESS	2006 K rent	Fee Simple	Leased Fee	Leasehold	Projected Rate of Return
1	39-063374	South Shore Mall/General Growth	1017 S. Boone St., Aberdeen 98520	\$66,800.00	\$1,400,000	\$1,410,000	\$0	4.77%
2	39-067091	Aerowood Animal Hospital	2975 156th Ave. S.E. Bellevue 98007	\$15,593.00	\$900,000	\$550,000	\$350,000	1.73%
3	39-069276	Key Park Northwest, Inc.	2100 2nd Ave., Seattle	\$56,400.00	\$1,300,000	\$1,260,000	\$40,000	4.34%
4	39-069982	Touchstone Corporation	15445 S.E. 30th Pl., Bellevue 98007	\$220,077.00	\$6,200,000	\$4,250,000	\$1,950,000	3.55%
5	39-072986	FRED MEYER	6100 E. Lake Sammamish Pl. S.E., Issaquah	\$1,177,322.00	\$18,700,000	\$19,300,000	\$0	6.30%
6	39-074432	Pacific Centers LLC (Eastgate Retail)	3181 156th Ave. S.E. Bellevue 98007	\$84,642.00	\$2,100,000	\$1,620,000	\$480,000	4.03%
7	39-064758	H&S Assoc. (Port Orchard Retail)	2995 Mile Hill Dr., Port Orchard 98366	\$40,482.68	\$1,100,000	\$1,050,000	\$50,000	3.68%
8	39-058985	Water Front Recreation	Apx. 10 mi. east of Cougar					
9	39-060397	Water Front Recreation	Apx. 10 mi. east of Cougar					
				\$84,733.00	\$924,000	\$1,170,000	\$0	9.17%
10	39-059983	John R. Blomberg	SW corner of 228th S.W. and Meridian Ave.	\$1,646.00	\$2,800,000	\$950,000	\$1,850,000	0.06%
11	39-059909	June Malone	8545 to 8633 Semiahmoo Dr., Blaine 98230	\$27,893.00	\$5,800,000	\$700,000	\$5,100,000	0.48%
		TOTALS		\$1,775,589	\$41,224,000	\$32,260,000	\$9,820,000	4.31%

EASTERN WASHINGTON LAND LEASE VALUATION SUMMARY

DNR NO.	LESSEE	ADDRESS	2006 K rent	Fee Simple	Leased Fee	Leasehold	Projected Rate of Return
1 39-076011	U.S. Bank of Washington, NA	800 S. Columbia, Connell	\$24,480	\$340,000	\$390,000	none	7.20%
2 39-076805	MT II, LLC	SE quad of Rd.68 & I-182, Pasco	\$25,000	\$1,100,000	\$770,000	\$330,000	2.27%
3 39-077755	Pasco Road 68 (David Black)	NE quad of Rd. 68 & I-182, Pasco	\$200,000	\$5,400,000	\$5,000,000	\$400,000	3.70%
4 39-053272	Mar Don Resort	8198 HWY 262 SE, Othello	\$35,066	\$327,200	\$370,000	none	10.96%
5 39-053673	Mar Don Resort	8198 HWY 262 SE, Othello	\$800				
6 39-057740	I 90 RV Inc. (Elmer Burnham)	658 Road L N.E., Moses Lake	\$11,674	\$292,500	\$250,000	\$42,500	3.99%
7 39-067554	Bob Buress	1807 E. Kittleson Rd, Moses Lake	\$19,800	\$320,000	\$290,000	\$30,000	6.19%
8 39-068485	Shilo Inn	1819 Kittleson Rd., Moses Lake	\$37,247	\$770,000	\$560,000	\$210,000	4.89%
9 39-078317	Sunbanks Resort	57662 Hwy 155 N, Electric City, WA	\$50,000	\$660,000	\$660,000	\$0	7.58%
10 39-068728	Duane G. Warren	P.O. Box 91, Trout Lake	\$510	\$140,000	\$50,000	\$90,000	1.08%
11 39-068729	John Fuller	P.O. Box 225, Trout Lake	\$200				
12 39-068730	Lanny Smith	P.O. Box 101, Trout Lake	\$602				
13 39-068731	Terry & Lynn Welch	P.O. Box 142, Trout Lake	\$200				
14 39-065576	Alpine Vet Clinic, Denise Krytenberg, DVM (James Gjesvold)	741 E. Riverside Dr., Omak	\$18,360	\$240,000	\$250,000	\$0	7.65%
15 39-066084	Anthony Baker & Burns (Prop. Mgr)	E. 1912 & 1914 Sharp Ave.	\$3,000	\$190,000	\$190,000	none with month to month	1.58%
16 39-079118	Liberty Lake LLC	NE quad of Liberty Lake Interchange on I-90 & west of George Gee car dealership	\$150,000	\$3,500,000	\$3,790,000	\$0	8.60%
17 39-060167	Chewelah Peak Investments (Chewelah Ski Basin/49 Deg. North)	3311 Flowery Trail Rd, Chewelah	\$3,268	\$43,000	\$60,000	\$0	7.60%
18 39-060204	Flowery Trail Community Asso. (Chewelah Basin Ski Corp)	P.O. Box 1309, Chewelah, 99109	\$9,956	\$131,000	\$180,000	\$0	7.60%
19 39-063721	City of Chewelah	201 Holford Rd.	\$1,158	\$173,580	\$50,000	\$123,580	0.67%
TOTALS			\$591,321	\$13,627,280	\$12,860,000	\$1,226,080	4.60%

WESTERN WASHINGTON IMPROVED PROPERTY VALUATION SUMMARY

	DNR NO.	Property	Date Acquired	Acquisition Price	2006 rent	Leased Fee	Initial Yield	Projected Rate of Return
1	39-068477	Costco	9/1/1988	\$5,150,000	\$584,009	\$9,400,000	8.50%	6.21%
2	39-069714	Boulevard Center	3/1/1995	\$17,300,000	\$1,803,000	\$25,200,000	9.00%	7.28%
3	39-068951	I-90 Lake Place Building A			\$1,086,357		9.00%	
4	39-068952	I-90 Lake Place Building B			\$745,724			
			10/1/1990	\$17,900,000	\$1,832,081	\$26,200,000		6.99%
5	39-069982	Walgreens - Des Moines	4/1/2006	\$7,125,000	\$481,500	\$8,025,000	6.76%	6.00%
6	39-069412	Kmart Wenatchee	6/1/1993	\$6,450,000	\$483,120	\$5,400,000	7.49%	0%
7	39-071061	Creekview Building	3/1/1999	\$7,000,000	\$474,000	\$7,100,000	8.60%	7.04%
8	39-074917	JanSport Warehouse	6/5/2005	\$12,900,000	\$1,125,000	\$18,000,000	8.00%	6.25%
9	39-073750	Walgreens - Mukilteo	2/5/2005	\$5,400,000	\$446,000	\$7,400,000	6.76%	6.03%
		TOTALS		\$79,225,000	\$7,228,710	\$106,725,000		6.77%

Specific Property Findings and Recommendations

1. The Mar Don Resort near Othello should be re-evaluated once its lease is renegotiated and a funded master plan is in place.
2. The four Trout Lake leases provide minimal income while the underlying tracts may have title and access problems. DNR should consider lease terminations with quit-claim deeds to avoid future liability or litigation.
3. The duplex in Spokane should be sold or exchanged. It does not fit the investment profile.
4. The Omak clinic is too remote and does not fit any investment profile.
5. Three properties have been improved with some form of residential subdivision and records were very poor regarding leasehold improvements. Nor is there good documentation or strategy to better participate in the upside value appreciation. See:
 - a. Flowery Trail Community Association near Chewelah
 - b. The Malone tract near Semiahmoo in Blaine
 - c. Swift Reservoir tract, "North Woods" near Cougar
6. The Blomberg tract in Bothell has an insufficient remaining term to develop, and yet receives only nominal rent creating a sizable leasehold.
7. The K-Mart store is probably best suited for partition and multi-tenancy, but we understand that DNR cannot function well as a property manager and general contractor. This may aggravate vacancy.

In conclusion, our efforts to value all assets in a consistent manner was inhibited by the mixed quality of records, accounts and property specific information. Thus additional information may come to light during this evaluation that could affect property values, such as renegotiated leases. We would be delighted to work further with PCA, the DNR and/or the WSIB in assisting property management with data management and other services to better monitor property performance.

Respectfully submitted,

CUSHMAN & WAKEFIELD OF OREGON, INC.



P. Barton DeLacy, MAI, CRE
Managing Director

Washington Certified General Appraiser
License No. 1100107

CERTIFICATION OF CONSULTING ENGAGEMENT

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Foundation and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
8. I have made personal inspections of many of the properties that are the subject of this report. Those properties not inspected are identified. Brian Booth provided significant consulting assistance to the person signing this report and inspected the Wenatchee site.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.



P. Barton DeLacy, MAI, CRE
Managing Director

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Appraiser Qualifications

Barton DeLacy

Brian Booth

PROPERTY DESCRIPTIONS

DNR No:	39063374
DNR Name:	South Shore Mall/General Growth

PROPERTY DESCRIPTION:

Address: 1017 S. Boone St, Aberdeen, WA 98520
 Configuration: parking area at SE corner of mall
 Total Land Area: 8.20
 Land Area (SF): 357,192
 Zoning Authority: Aberdeen
 Zoning: Commercial
 Utilities to Site: All available
 Improvement Description: Mall anchored by Sears and JC Penney

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: South Shore Partners L.P.
 Lease Term: 45 years 3 months
 Start Date: 01/01/80
 End Date: 03/25/25
 Area Leased (Acres): 8.07
 Base Rent: \$66,800
 Basis for Rent: rent set per lease caps through 2015
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$1,400,000
 Value per Square Foot: \$3.92
 Land Lease Analysis:
 Current Contract Land Rent: \$66,800
 Actual Rate of Return: 4.77%
 Leasehold Value: \$0
 Leased Fee Value: \$1,410,000

Comments: Mall site reported to have settlement problems, but this does not affect parking lot area.

DNR No:	39067091
DNR Name:	Aerowood Animal Hospital

PROPERTY DESCRIPTION:

Address:	2975 156th Ave. S.E. Bellevue, WA 98007
Configuration:	Irregular shape
Total Land Area:	0.53
Land Area (SF):	23,087
Zoning Authority:	City of Bellevue
Zoning:	Office
Assessed Values	\$634,600
Total Assessment	leasehold tax only
Improvement Description:	wood frame veterinary clinic
Gross Building Area (SF):	2,880
Year Built:	1968

LEASE ABSTRACT

Lessor:	State of Washington- Department of Natural Resources
Lessee:	Aerowood Animal Hospital
Lease Term:	65 years (initially 15 yrs w/ (5) 10-yr extensions)
Start Date:	6/20/1967
End Date:	6/19/2012
Area Leased (Acres):	0.53
Base Rent:	\$15,593
Basis for Rent:	\$2,700 per year trended by CPI at 5 year intervals
Escalations:	CPI at 5 year intervals
Recoveries:	triple net
Comments:	Although a significant leasehold created by lease, remaining term is too short to allow redevelopment. Original lease made between Puget Sound Air Service and Don Clarke et ux. Use restricted to boarding animals. Assigned to Kelts 1975; sublet to Aerowood in 1981. I-90 Bellevue Associates sucessor lessor in January 1986. DNR assigned lease in June 1986.

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation	
Overall Land Value:	\$900,000
Value per Square Foot:	\$38.98
Land Lease Analysis:	
Current Contract Land Rent:	\$15,593
Actual Rate of Return:	1.73%
Leasehold Value:	\$350,000
Leased Fee Value:	\$550,000

Recommendations: Look to buyout leasehold and seek to redevelop or trade for better return.

Comments: Now surrounded by Eastgate Office Park; no longer highest and best use of site.

DNR No:	39069276
DNR Name:	Key Park Northwest, Inc.

PROPERTY DESCRIPTION:

Address: 2100 2nd Ave., Seattle
 Configuration: Rectangular at NWC 2nd Ave. and Lenora
 Total Land Area: 0.15
 Land Area (SF): 6,480
 Zoning Authority: City of Seattle
 Zoning: DMR/R 85'/65', downtown mixed residential
 Assessed Values: \$1,004,400
 Improvement Description: Portion of parking lot assemblage at corner in Belltown, just north of Seattle CBD

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Key Park NW, LLC
 Lease Term: 5 years
 Start Date: 6/30/1992
 End Date: 6/30/2008
 Area Leased (sq. ft.): 6,480
 Base Rent: \$56,400
 Rate of Return: 5%
 Escalations: CPI, but not exercised
 Recoveries: Triple net
 Comments: site must be offered at public auction at lease

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$1,300,000
 Value per Square Foot: \$200.62
 Land Lease Analysis:
 Current Contract Land Rent: \$56,400
 Actual Rate of Return: 4.34%
 Leasehold Value: \$40,000
 Leased Fee Value: \$1,260,000

Recommendations: Lease will be put up for bid in a couple years, and DNR should consider trade because of development potential.

Comments: This is the corner parcel in ½ block parking lot assemblage in heart of Belltown; across from Starbucks. Parking lot may not be highest and best use.

DNR No:	39069276
DNR Name:	Eastgate Building (Touchstone Corp.)

PROPERTY DESCRIPTION:

Address: 15445 S.E. 30th Pl., Bellevue, WA 98007
 Total Land Area: 3.54
 Land Area (SF): 154,202
 Zoning Authority: City of Bellevue
 Zoning: Office (O/C)
 Improvement Description: Class B office building in Eastgate Park
 Gross Building Area (SF): 70,000

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Touchstone Partners I, LLC
 Lease Term: 55 years
 Start Date: 6/1/1997
 End Date: 5/31/2052
 Area Leased (Acres): 3.54
 Base Rent: \$220,077
 Rate of Return: US Treasury + 2.75%
 Escalations: compound CPI escalation projected every 5 yrs.
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$6,200,000
 Value per Square Foot: \$116.67
 Land Lease Analysis:
 Current Contract Land Rent: \$220,077
 Actual Rate of Return: 3.55%
 Leasehold Value: \$1,950,000
 Leased Fee Value: \$4,250,000

Recommendations:

Periodic reappraisal should be negotiated in strong commercial markets, since CPI cannot keep up with spikes in demand.

Comments:

CPI escalator has not kept pace with demand for commercial land along I-90 corridor; building is above average for office park.

DNR No:	39072986
DNR Name:	Fred Meyer

PROPERTY DESCRIPTION:

Address: 6100 E. Lake Sammamish Pl., Issaquah, WA
 Configuration: Irregular shape
 Total Land Area: 12.28
 Land Area (SF): 534,743
 Zoning Authority: Issaquah
 Zoning: Community Business (CB)
 Improvement Description: Fred Meyer Shopping Center
 Gross Building Area (SF): 165,347
 Year Built: 2001

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Fred Meyer
 Lease Term: 20 years
 Start Date: 9/23/1999
 End Date: 9/23/2019
 Area Leased (Acres): 12.2
 Base Rent: \$1,177,322
 Basis for Rent: \$16.00 land value according to Fred Meyer
 Rate of Return: 8% at time of acquisition
 Escalations: set per lease; escalates 12% after first 10 years, then 12% at 5 year intervals for each renewal term
 Recoveries: Triple net
 Renewal Options: renewal rates set per lease at 12% each 5 year period
 Purchase Options: First right of offer in event of sale
 Comments: lease assumed by DNR; Kroger passed on acquisition and opted for lease because price did not meet their guidelines (too high)

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation

Overall Land Value: \$18,700,000
 Value per Square Foot: \$34.97

Land Lease Analysis:

Current Contract Land Rent: \$1,177,322
 Actual Rate of Return: 6.30%
 Leasehold Value: \$0
 Leased Fee Value: \$19,300,000

Comments: Issaquah location has matured; rate of return reflects competitive investment grade retail in current market.

DNR No:	39074432
DNR Name:	Pacific Centers LLC (Eastgate Retail)

PROPERTY DESCRIPTION:

Address: 3181 156th Ave. S.E. Bellevue, WA 98007
 Configuration: Irregular shape
 Total Land Area: 1.22
 Land Area (SF): 53,143
 Zoning Authority: Bellevue
 Zoning: Community Business (CB)
 Assessed Values: \$1,986,800
 Improvement Description: Starbucks leased a built-to-suit retail building with upstairs office; Jack in the Box sub-leases other pad.

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Pacific Centers, LLC
 Lease Term: 55
 Start Date: 11/1/2002
 End Date: 10/31/2057
 Area Leased (Acres): 1.21
 Base Rent: \$84,642
 Escalations: CPI every five years, capped at 12.5%
 Recoveries: Triple net
 Comments: Sublease to Starbucks for 10 years with extensions; sublease to Jack in the Box; lessee has options to terminate after 20 years and then at 5 yr. intervals.

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$2,100,000
 Value per Square Foot: \$39.52
 Land Lease Analysis:
 Current Contract Land Rent: \$84,642
 Actual Rate of Return: 4.03%
 Leasehold Value: \$480,000
 Leased Fee Value: \$1,620,000

Comments: Relatively small site has been opportunistically developed as prime retail pads; near lodging, offices and I-90 interchange.

DNR No:	39064758
DNR Name:	H&S Assoc. (Port Orchard Retail)

PROPERTY DESCRIPTION:

Address: 2995 Mile Hill Dr., Port Orchard 98366
 Configuration: Rectangular
 Total Land Area: 2.06
 Land Area (SF): 89,734
 Zoning Authority: Port Orchard
 Zoning: Business General
 Improvement Description: Goodyear tire store and new anchored retail building

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: H&S Associates, LLC
 Lease Term: 47 years 3 months
 Start Date: 4/15/1982
 End Date: 7/14/2029
 Area Leased (Acres): 2.06
 Base Rent: \$40,482.68
 Rate of Return: 8%
 Escalations: based on state rate of return on market value; 8% rate projected
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$1,100,000
 Value per Acre: \$522,720
 Value per Square Foot: \$12.00
 Land Lease Analysis:
 Current Contract Land Rent: \$40,483
 Actual Rate of Return: 3.68%
 Leasehold Value: \$50,000
 Leased Fee Value: \$1,050,000

Comments: Reappraisal within 5 years should allow DNR to increase rate of return relative to market conditions.

DNR No:	39058985
DNR Name:	Water Front Recreation (Swift Reservoir)

PROPERTY DESCRIPTION:

Address: Apx. 10 mi. east of Cougar, WA
 Configuration: Irregular shape
 Total Land Area: 92.40
 Land Area (SF): 4,024,944
 Zoning Authority: Skamania Co.
 Zoning: Unzoned
 Improvement Description: Cabins on tracts of land

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Water Front Recreation, Inc.
 Lease Term: Parcel A 55 years
 Parcel B 99 years
 Total Area Leased (Acres): 92.40
 Base Rent: \$34,733.00
 Sublease Rents: 10% of gross sublease rents from 210 recreational home sites; plus 5% from concessions

 Basis for Rent: periodic market rent appraisals
 Rate of Return: 6%-8%
 Escalations: 1) Parcel B trended at 40% at 10 year intervals; reset at mkt in 2025 w/ 5 yr readjustments
 2) Parcel A trended at inflation rate per lease
 3) sublease and concession income trended at 1%/year
 4) Parcels A & B combined after 2025
 Recoveries: Triple net
 Comments: Not provided with any sublease information other than aggregate totals for 3 years

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$924,000
 Value per Acre: \$10,000
 Value per Square Foot: \$0.23
 Land Lease Analysis:
 Current Contract Land Rent: \$84,733
 Actual Rate of Return: 9%
 Leasehold Value: \$0
 Leased Fee Value: \$1,170,000

Comments: Did not inspect; poor records available on how Northwoods subdivision along Swift Reservoir has been sublet and on performance of concessions.

DNR No:	39059983
DNR Name:	John R. Blomberg

PROPERTY DESCRIPTION:

Address: SW Corner of 228th S.W. and Meridian Ave.,
Bothell, WA

Configuration: Irregular shape

Total Land Area: 8.54

Land Area (SF): 372,002

Zoning Authority: City of Bothell

Zoning: R 9600 and NB Neighborhood Business

Improvement Description: vacant

Findings: wooded site in area of low density residential
development

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural
Resources

Lessee: John Blomberg

Lease Term: 55 years

Start Date: 5/1/1972

End Date: 5/1/2027

Area Leased (Acres): 8.54

Base Rent: \$1,646

Escalations: 1) land rent increases limited to 40% over previous
base
2) reversion based on current assessed value
which is supported by comparable land sales

Recoveries: Triple net

MARKET VALUE INDICATORS

Land Value Allocation: initial rental based on an agricultural use in 1972

Overall Land Value: \$7,500

Value per Acre: \$878

Value per Square Foot: \$0.02

Land Value Allocation

Overall Land Value: \$2,800,000

Value per Acre: \$327,869

Value per Square Foot: \$7.53

Land Lease Analysis:

Current Contract Land Rent: \$1,646

Actual Rate of Return: 0.06%

Leasehold Value: \$1,850,000

Leased Fee Value: \$950,000

Recommendations: Insufficient term on lease for lessee to develop, so DNR
should try and buy out leasehold to improve yield.

Comments: Land next to Federal FEMA facility and has mixed
commercial and residential zoning.

DNR No:	39059909
DNR Name:	June Malone (Semiahmoo Subdivision)

PROPERTY DESCRIPTION:

Address: 8545 to 8633 Semiahmoo Dr., Blaine, WA
98230

Configuration: Irregular shape

Total Land Area: 36.70

Average Parcel Size: 1.27

Avg. Land Area (SF): 55,126

Zoning Authority: City of Blaine

Zoning: Urban residential 4 dwelling units/ac

Improvement Description: not known

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: June Malone

Lease Term: 99 years

Start Date: 11/15/1971

End Date: 11/14/2070

Area Leased (Acres): 36.7

Base Rent: \$27,893

Basis for Rent: 1981 lease

Escalations: change in CPI over 10 year intervals; next adjustment 9/15/2012

Recoveries: Triple net

Comments: Lots now developed with bay front homes

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation

Overall Land Value: \$5,800,000

Value per Acre: \$158,038

Value per Square Foot: \$3.63

Land Lease Analysis:

Current Contract Land Rent: \$27,893

Actual Rate of Return: 0.48%

Leasehold Value: \$5,100,000

Leased Fee Value: \$700,000

Recommendations: Land lease should be renegotiated to capture appreciation in residential land values

Comments: Did not inspect; very poor records of sublease activity.

DNR No:	39076011
DNR Name:	US Bank Of Washington, NA

PROPERTY DESCRIPTION:

Address: 800 S. Columbia, Connell
 Configuration: Irregular
 Land Area (SF): 42,689
 Zoning Authority: City of Pasco
 Zoning: Commercial General
 Improvement Description: Wood frame bank branch with drive thru window
 Gross Building Area (SF): 2,990

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: U.S. Bank of Washington, NA
 Lease Term: 15
 Start Date: 09/07/03
 End Date: 09/06/18
 Area Leased (Acres): 0.98
 Base Rent: \$24,480
 Basis for Rent: triple net
 Rate of Return: 8%
 Escalations: 1) bank branch has limited remaining economic life and will not contribute to reversion value at end of lease
 2) lease steps up per contract: \$28,152 in 2009, and \$32,375 in 2013

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$340,000
 Value per Square Foot: \$8.00
 Land Lease Analysis:
 Current Contract Land Rent: \$24,480
 Actual Rate of Return: 7.20%
 Leasehold Value: none
 Leased Fee Value: \$390,000

Recommendations: Consider securing better freeway related use, such as restaurant or gas station, as long term tenant if bank does not extend lease.

Comments: Connell a slow-growth area and this location has significant under-utilization.

DNR No:	39076805
DNR Name:	MT II, LLC

PROPERTY DESCRIPTION:

Address: SE quad of Rd. 68 & I-182, Pasco
Configuration: interchange remainder, platted for retail development; site compromised by pipeline easement and encumbered by lawsuit related to removal of overburden.

Total Land Area: 12.27
Land Area (SF): 534,481

Zoning Authority: City of Pasco
Zoning: C-1
Improvement Description: Vacant

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: MT II, LLC

Lease Term: 55 years

Start Date: 11/15/2004

End Date: 11/14/2059

Area Leased (Acres): 12.27

Base Rent: \$25,000

Basis for Rent: triple net

Escalations: 1) annual rent fixed first 10 years of lease - here 2007-2014
2) In 2014 and 2034 property to be appraised at FMV and new base rent reset
3) every 5 years base rent to be escalated 10%

Recoveries: triple net

MARKET VALUE INDICATORS

Current Land Value Allocation

Fee Simple Land Value (rounded): \$1,100,000

Value per Square Foot: \$2.00

Land Lease Analysis:

Current Contract Land Rent: \$25,000

Actual Rate of Return: 2.27%

Leasehold Value: \$330,000

Leased Fee Value: \$770,000

Recommendations: Extend term in exchange for revaluation to adjust rent to market, or tie rental increases to future performance of property.

Comments: Site lies within path of growth, surrounded by higher end apartments; however unresolved lawsuit will preclude development.

DNR No:	39077755
DNR Name:	Pasco Rd 68

PROPERTY DESCRIPTION:

Address: NE quadrant of Rd. 68 & I-182, Pasco
 Ownership: DNR
 Configuration: Land master leased and subsequently platted
 Total Land Area: 30.89
 Land Area (SF): 1,345,568
 Zoning Authority: City of Pasco
 Zoning: C-1
 Utilities to Site: All available
 Access: Good
 Improvement Description: Vacant Land

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Pasco Rd 68, LLC (David Black)
 Lease Term: 55 years
 Start Date: 9/30/2005
 End Date: 9/29/2060
 Area Leased (Acres): 30.89
 Base Rent: \$200,000
 Basis for Rent: Nov. 2003 appraisal by Auble firm; copy not available
 Rate of Return: 8%
 Escalations: 1) annual rent fixed first 3 years of lease - here 2007-2008
 2) In 2008 rent increases to \$400,000
 3) year 11 rent increases 20% for 5 years
 3) year 16 rent increases 10% for 4 years
 4) year 20 rent increases 10% for 6 years
 5) reappraise year 26
 6) 10% increase every 5 years thereafter
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$5,400,000
 Value per Square Foot: \$4.00
 Land Lease Analysis:
 Current Contract Land Rent: \$200,000
 Actual Rate of Return: 3.70%
 Leasehold Value: \$400,000
 Leased Fee Value: \$5,000,000

Recommendations: Lease structured to stay at market.

Comments: Lease increases when lessee paid infrastructure amortized in 2008. Sublet to Lowes.

DNR No:	39053272
DNR Name:	Mar Don Resort

PROPERTY DESCRIPTION:

Address: 8198 HWY 262 SE, Othello, WA
Configuration: crescent shaped site with sandy beaches and dock

Total Land Area: 16.36
Land Area (SF): 712,642

Zoning Authority: Grant County
Zoning: Master Planned Res.
Improvement Description: 136 full hook-up RV campsites, 42 limited RV sites w/ fire-pits; 97 tent sites; 28 motel rooms-suites; store; fishing docks

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: Mar Don Resort

Lease Term: 35
Start Date: 4/1/1978
End Date: 3/31/2013
Area Leased (Acres): 16.36
Base Rent: \$35,866
Basis for Rent: base + percent
Rate of Return: 4.5% of gross revenues
Escalations: 10% every 5 years
Recoveries: Triple net
Renewal Options: to be negotiated
Comments: recent performance inconsistent; operated by second generation of family owned enterprise

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation

Overall Land Value: \$327,200
Value per Acre: \$20,000

Land Lease Analysis:

Current Contract Land Rent: \$35,866
Actual Rate of Return: 10.96%
Leasehold Value: \$0
Leased Fee Value: \$370,000

Recommendations: Leasehold to be renegotiated in near term in order to incentivize lessee to upgrade improvements. Term should be extended sufficiently to allow long term mortgage to be placed on property.

Comments: Property not inspected.

DNR No:	39057740
DNR Name:	I 90 RV Inc.

PROPERTY DESCRIPTION:

Address: 658 Road L N.E., Moses Lake
 Configuration: Irregular shape, located on SE quadrant of I-90 and SR-17
 Total Land Area: 29.25
 Land Area (SF): 1,274,130
 Zoning Authority: City of Moses Lake
 Zoning: C-2
 Improvement Description: RV and Equipment Sales and Service, unpaved, unserviced

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: I-90 RV, Inc.
 Lease Term: 35
 Start Date: 3/1/1985
 End Date: 3/1/2020
 Area Leased (Acres): 29.25
 Base Rent: \$11,674
 Basis for Rent: Reset rent to market value every five years
 Rate of Return: 8%
 Escalations: per appraisal
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$292,500
 Value per Acre: \$10,000
 Land Lease Analysis:
 Current Contract Land Rent: \$11,674
 Actual Rate of Return: 3.99%
 Leasehold Value: \$42,500
 Leased Fee Value: \$250,000

Recommendations: Sell or exchange for higher yielding property.

Comments: Lease tied to market but prospects for growth poor.

DNR No:	39067554
DNR Name:	Bob's Restaurant

PROPERTY DESCRIPTION:

Address: 1807 E. Kittleson Rd, Moses Lake, WA
 Configuration: Irregular shape
 Land Area (SF): 39,640
 Zoning Authority: City of Moses Lake
 Zoning: C-2
 Improvement Description: free standing restaurant
 Gross Building Area (SF): 5,000

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Bob and Georgine Burress
 Lease Term: 55
 Start Date: 8/1/1988
 End Date: 7/31/2043
 Area Leased (Acres): 0.91
 Base Rent: \$19,800
 Basis for Rent: July 1998 appraisal by Lamb Hanson Lamb
 Rate of Return: 5%
 Escalations: 1) reappraise land every 5 years and reset land rent
 2) 5 year appraisal cycle will keep lease at market in stable market
 Recoveries: Triple net
 Comments: Rent stepped down from original \$25,000 per year, former appraised value may have been high; rate of return unspecified in lease

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$320,000
 Value per Square Foot: \$8.07
 Land Lease Analysis:
 Current Contract Land Rent: \$19,800
 Actual Rate of Return: 6.19%
 Leasehold Value: \$30,000
 Leased Fee Value: \$290,000

Recommendations: None

Comments: Restaurant adjacent to Shilo Inn at western exit off I-90 to Moses Lake.

DNR No:	39068485
DNR Name:	Shilo Inn

PROPERTY DESCRIPTION:

Address: 1819 Kittleson Rd, Moses Lake, WA
 Configuration: Irregular shape
 Total Land Area: 2.72
 Land Area (SF): 118,483
 Zoning Authority: City of Moses Lake
 Zoning: C-2
 Utilities to Site: All available
 Access: Good
 Improvement Description: Shilo Inn motel building, includes: restaurant, deli, and gas station

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Shilo Inn
 Lease Term: 30
 Start Date: 8/1/1988
 End Date: 12/31/2018
 Area Leased (Acres): 2.72
 Base Rent: \$21,657
 Rate of Return: 10%
 Escalations: 1) CPI on 5 year intervals, same during first 2 10 yr. extensions
 2) percentage rent trended at CPI for duration of first term
 3) land only reversion after extensions exhausted
 Recoveries: Triple net
 Renewal Options: 2 ten-year options, (1) final option for 4 years, 7 months

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$770,000
 Value per Square Foot: \$6.50
 Land Lease Analysis:
 Current Contract Land Rent: \$37,657
 Actual Rate of Return: 4.89%
 Leasehold Value: \$210,000
 Leased Fee Value: \$560,000

Comments: Lease has adequate provisions to adjust to market.

DNR No:	39078317
DNR Name:	Sunbanks Lake Resort

PROPERTY DESCRIPTION:

Address: 57662 Hwy 155 N, Electric City, WA
Configuration: Promontory between Banks Lake and Osborn Bay Lake west of Grand Coulee Dam; landscaped with parks, campsites, RV sites, docks; rocky uplands improved with rental villas; 50 acres usable +/-

Total Land Area: 197.55
Land Area (SF): 8,605,278

Zoning Authority: Grant County
Zoning: Master Planned Res.

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: Sunbanks LTD, Corp

Lease Term: 55 years

Start Date: 12/1/2005

End Date: 11/30/2060

Area Leased (Acres): 197.55

Base Rent: \$50,000

Basis for Rent: base rent plus 4.5% overage rent; 5 year

Escalations: 1) rent adjusted every 5 years at 10%
2) no basis for percentage rent at this time

Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation

Overall Land Value: \$660,000

Value per Acre: \$3,341

Land Lease Analysis:

Current Contract Land Rent: \$50,000

Actual Rate of Return: 7.58%

Leasehold Value: \$0

Leased Fee Value: \$660,000

Recommendations: None, lease just renegotiated.

Comments: Lessee building cabins and expanding facilities. This should increase percentage rent payments over time.

DNR No:	39065576
DNR Name:	Alpine Vet Clinic

PROPERTY DESCRIPTION:

Address: 741 E. Riverside Dr., Omak
 Configuration: Irregular shape
 Total Land Area: 1.80
 Land Area (SF): 78,408
 Zoning Authority: Okanogan County
 Zoning: minimum requirement
 Improvement Description: former DNR office converted to veterinary clinic, defunct heliport, barn, shed and pump house
 Gross Building Area (SF): 1,995
 Year Built: 1984 conversion

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Alpine Vet Clinic
 Lease Term: 55 years
 Start Date: 2/1/1985
 End Date: 1/31/2040
 Area Leased (Acres): 1.8
 Base Rent: \$18,360
 Basis for Rent: 1990 appraisal
 Escalations: CPI increase every 5 years
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$240,000
 Value per Square Foot: \$3.00
 Land Lease Analysis:
 Current Contract Land Rent: \$18,360
 Actual Rate of Return: 7.65%
 Leasehold Value: \$0
 Leased Fee Value: \$250,000

Recommendations: Although the land lease is now favorable to the DNR, property is remote and tenant weak. Property should be sold or exchanged.

Comments: Property was not inspected

DNR No:	39079118
DNR Name:	Liberty Lake LLC

PROPERTY DESCRIPTION:

Address: NE quad of Liberty Lake Exchange on I-90, east of Spokane, WA

Configuration: Irregular shape

Total Land Area: 32.11

Land Area (SF): 1,398,712

Zoning Authority: Liberty Lake

Zoning: C-2

Improvement Description: vacant

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: Liberty Lake Plaza, LLC

Lease Term: 55 years

Start Date: 8/31/2006

End Date: 8/31/2061

Area Leased (Acres): 32.11

Base Rent: \$150,000

Basis for Rent: 2005 appraisal

Rate of Return: 8.60%

Escalations: 1) annual rent fixed first 2 years of lease - here 2006-2007
2) In 2008 rent increases to \$400,000
3) year 11 rent increases 20% for 5 years
3) year 16 rent increases 10% for 4 years
4) year 20 rent increases 10% for 6 years
5) reappraise year 26
6) 10% increase every 5 years thereafter

Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation

Overall Land Value: \$3,500,000

Value per Square Foot: \$2.50

Land Lease Analysis:

Current Contract Land Rent: \$150,000

Actual Rate of Return: 9%

Leasehold Value: \$0

Leased Fee Value: \$3,790,000

Comments: This is a new deal by the DNR with a land lease that will yield a high rate of return for the near term. Site lies along I-90 in path of growth. We stipulated to recent appraised value.

DNR No:	39060167
DNR Name:	Chewelah Peak Investments

PROPERTY DESCRIPTION:

Address: 3311 Flowery Trail Rd, Chewelah
 Configuration: Irregular shape
 Total Land Area: 86.00
 Land Area (SF): 3,746,160
 Zoning Authority: Stevens County
 Zoning: unzoned
 Improvement Description: most of west portion of site encumbered by roads accessing Flowery Trail subdivision and Learning Center site; eastern portion now unbuildable because of buffers to stream corridor

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Chewelah Peak Investments, LLC
 Lease Term: 99 years
 Start Date: 7/1/1972
 End Date: 6/30/2071
 Area Leased (Acres): 86
 Base Rent: \$3,268
 Basis for Rent: 1971 lease
 Escalations: CPI or appraisal every 5 years at lessor's option, commencing with 35th anniversary in 2007
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$43,000
 Value per Acre: \$500
 Land Lease Analysis:
 Current Contract Land Rent: \$3,268
 Actual Rate of Return: 7.60%
 Leasehold Value: \$0
 Leased Fee Value: \$60,000

Recommendations: Consolidate with Flowery Trail Homeowners Association lease.

Comments: Lease has satisfactory "look-ins" to ratchet lease rate to market and keep up with inflation.

DNR No:	39063721
DNR Name:	Flowery Trail Community Asso.

PROPERTY DESCRIPTION:

Address: P.O. Box 1309, Chewelah, 99109
 Configuration: Irregular shape
 Total Land Area: 262.00
 Land Area (SF): 11,412,720
 Zoning Authority: City of Chewelah
 Zoning: unzoned
 Improvement Description: 104 lot subdivision with four condominiums; 30 houses have been built or are under construction; lot sizes average 8,000 sf.

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Flowery Trial Community
 Lease Term: 99 years
 Start Date: 7/1/1972
 End Date: 6/30/2071
 Area Leased (Acres): 262.00
 Base Rent: \$9,956
 Escalations: CPI or appraisal every 5 years at lessor's option, commencing with 35th anniversary in 2007
 Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
 Overall Land Value: \$131,000
 Value per Acre: \$500
 Land Lease Analysis:
 Current Contract Land Rent: \$9,956
 Actual Rate of Return: 7.60%
 Leasehold Value: \$0
 Leased Fee Value: \$180,000

Recommendations: Land lease should be consolidated with adjacent tract that controls access to development.

Comments: Subdivision improved mostly with recreational second homes taking advantage of Mt. Chewelah ski resort (49 Degrees North).

DNR No:	39063721
DNR Name:	City Of Chewelah

PROPERTY DESCRIPTION:

Address: 201 Horford Rd.
Configuration: Irregular shape, mostly level site, densely wooded area traversed by access road to airport

Total Land Area: 86.79
Land Area (SF): 3,780,572
Zoning Authority: City of Chewelah
Zoning: APGC1
Improvement Description: mobile homes, sheds

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: City of Chewelah
Lease Term: 55
Start Date: 9/5/1980
End Date: 8/5/2035
Area Leased (Acres): 86.79
Base Rent: \$1,158
Basis for Rent: \$700 annual fee + 10% gross receipts from 2 storage rentals tied to airport

Escalations: CPI adjustment every 5 years
Recoveries: Triple net

MARKET VALUE INDICATORS

Fee Simple Land Value Allocation
Overall Land Value: \$173,580
Value per Acre: \$2,000
Land Lease Analysis:
Current Contract Land Rent: \$1,158
Actual Rate of Return: 0.67%
Leasehold Value: \$123,580
Leased Fee Value: \$50,000

Recommendations: City should be encouraged to develop tract to highest and best use, increase performance revenue to state.

Comments: Forested area buffers housing from airport. Golf course and upper end housing flanks airport across runway from subject.

DNR Number:	39-068477
DNR Name:	Costco

PROPERTY DESCRIPTION:

Address: 3900 20th Street E
 Configuration: Irregular
 Total Land Area: 7.86
 Land Area (SF): 342,382
 Zoning Authority: City of Fife
 Zoning: M1
 Improvement Description: one-story, concrete, tilt-up, warehouse with retail use

 NLA: 105,555
 Tenants: Costco
 Parking Ratio: parking for 440 cars
 Year Built: 1984

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Price Savers Wholesale Inc.
 Lease Term: 30
 Start Date: 5/26/1984
 End Date: 5/26/2014
 Net Leasable Area (NLA): 105,555
 Base Rent: \$584,009.64
 Rent/SF/NLA: \$5.53
 Escalations: 50% of CPI index change at 5-year intervals from commencement, see DCF statement
 Recoveries: Triple net
 Renewal Options: (4) 5-year options to extend

MARKET VALUE INDICATORS

Value basis: acquisition
 Date Acquired: 9/1/1988
 Purchase Price: \$5,150,000
 Price/ NLA: \$48.79
 Rate of Return at Acquisition: 8.50%
 Fee Simple Value: \$9,400,000
 Value per NLA: \$89.05
 Land Lease Analysis:
 Current Contract Land Rent: \$584,009
 Contract Rent/ sq. ft./ year: \$5.53
 Leased Fee Value: \$9,400,000

Comments: Property value has increased due to declining capitalization rates. High auto dealerships now dominate this frontage road along I-5 just north of Seattle.

DNR Number:	39-069714
DNR Name:	Boulevard Center

PROPERTY DESCRIPTION:

Address: Immediately North of Tacoma Mall, south of Tacoma Mall Boulevard, backs up to I-5, Tacoma, Pierce County, WA

Configuration: Irregular

Total Land Area: 8.73

Land Area (SF): 380,235

Zoning Authority: City of Tacoma

Zoning: CPR, Planned Regional Shopping Center District

Improvement Description: masonry multiple building power center

Gross Building Area (SF): 121,552

NLA: 121,552

Year Built: 1994

LEASE ABSTRACTS

Lessor: State of Washington- Department of Natural Resources

Tenant Summary: see tenant summary

Net Leasable Area (NLA): 121,552

Base Rent: \$1,815,716

Rent/SF/NLA: \$14.94

Recoveries: Triple net

MARKET VALUE INDICATORS

Value basis: acquisition

Date Acquired: 3/1/1995

Purchase Price: \$17,300,000

Price/ NLA: \$142.33

Rate of Return at Acquisition: 9.00%

Fee Simple Value: \$25,200,000

Value per Square Foot: \$207.32

Current Contract Rent: \$1,815,716

Actual Rate of Return: 7.28%

Leased Fee Value: \$25,200,000

Comments: Net income based on contract rents less typical allowance for NNN expenses and vacancy; capitalized based on comparable sales of similarly tenanted power centers in PNW. See tenant summary below.

Boulevard Center - Tenant Summary

Tenant	Size (SF)	Lease Term	Options	Current Rent	Rent/SF
Comp USA	15,000	Mar-95 - Feb-10	2 - 5 yr	\$ 301,050	\$ 20.07
Cost Plus	17,253	May-01 - Jan-27	Yes*	\$ 263,108	\$ 15.25
Office Max	23,063	Sep-94 - Jan-10	3 - 5 yr	\$ 327,956	\$ 14.22
Jo-Ann Fabrics	42,584	Aug-94 - Aug-14	4 - 5 yr	\$ 546,353	\$ 12.83
Circuit City	23,652	May-97 - Jan-38	Yes*	\$ 377,249	\$ 15.95
Total/Average	121,552			\$ 1,815,716	\$ 14.94

* Termination Options

DNR No:	39068951 39068952
DNR Name:	I-90 Lake Place 1 and 2

PROPERTY DESCRIPTION:

Address: 2001/2005 NW Sammamish Road, Issaquah, WA
 Configuration: Irregular
 Total Land Area: 8.27
 Land Area (SF): 360,303
 Zoning Authority: City of Issaquah
 Zoning: DD4
 Improvement Description: flex-type 2-level brick office buildings overlooking freeway

 total NLA 125,422
 Tenants: Bldg A: Swedish Health
 Bldg B: Western Wireless
 Parking Ratio 4.1/1,000 sf
 Year Built: 1990

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

 Lessee: A: Swedish Health and Western Wireless
 B: Western Wireless
 Lease Term: A 20 years 3 months
 B 7 years 11 months
 Start Date: A 10/01/04
 B 01/01/03
 End Date: A 01/01/25
 B 12/01/10
 total base rent \$1,864,346.00
 Rent/SF/NLA for total \$14.86
 Recoveries: Triple net

MARKET VALUE INDICATORS

Value basis: acquisition
 Date Acquired 10/1/1990
 Purchase Price: \$17,900,000
 Price/ NLA \$142.72
 Rate of Return at Acquisition 9.00%
 Fee Simple Value: \$28,000,000
 Value per NLA: \$223.25
 Current NOI: \$1,864,346
 Actual Rate of Return: 6.66%
 Leasehold Value: \$0
 Leased Fee Value: same as fee simple

Comments: DNR replaced initial tenants by using hold back from purchase to cover retensing costs.

DNR Number:	39-069982
DNR Name:	Walgreen's Des Moines

PROPERTY DESCRIPTION:

Address: 23003 Pacific Highway South, Des Moines, WA 98198
 Configuration: Irregular
 Total Land Area: 1.74
 Land Area (SF): 75,794
 Zoning Authority: City of Des Moines
 Zoning: PC-C1
 Improvement Description: built -to-suit concrete block drug store with a drive-through
 NLA: 14,820
 Tenants: Walgreens
 Parking Ratio: 3.0/1,000SF of GLA
 Year Built: 2005

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources
 Lessee: Walgreen Co
 Lease Term: 75 years
 Start Date: 11/01/05
 End Date: 10/31/80
 Net Leasable Area (NLA): 14,820
 Base Rent: \$481,500
 Rent/SF/NLA: \$32.49
 Escalations: Rent is flat
 Recoveries: Triple net
 Renewal Options: termination option after 25 years

MARKET VALUE INDICATORS

Value basis:
 Date Acquired: 4/1/2006
 Purchase Price: \$7,125,000
 Price/ NLA: \$480.77
 Rate of Return at Acquisition: 6.76%
 Fee Simple Value: \$8,025,000
 Contract NOI: \$481,500
 Value per NLA: \$541.50
 Actual Rate of Return: 6.00%
 Leasehold Value: \$0
 Leased Fee Value: same as fee simple

Comments: Well located store, the value of the lease tied to the credit-worthiness of the tenant.

DNR No:	39069412
DNR Name:	Kmart

PROPERTY DESCRIPTION:

Address: NE Quadrant U.S. Hwys. 2/97 and Easy St.,
 Wenatchee, WA
 Configuration: Irregular
 Total Land Area: 9.01
 Land Area (SF): 392,476
 Zoning Authority: Chelan County
 Zoning: Planned Development
 Improvement Description: Tilt-up "big box" style retail center, concrete block,
 average quality
 Gross Building Area (SF): 107,838
 NLA: 107,838
 Parking Ratio: 451 spaces
 Year Built: 1993

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural
 Resources
 Lessee: Kmart
 Lease Term: lease terminated
 Net Leasable Area (NLA): 107,838

MARKET VALUE INDICATORS

Value basis: acquisition
 Date Acquired: 6/1/1993
 Purchase Price: \$6,450,000
 Price/ NLA: \$59.81
 Rate of Return at Acquisition: 9.82%
 Fee Simple Value: \$5,400,000
 Land Value Allocation: \$1,177,427
 Value per Square Foot: \$50.08
 Actual Rate of Return: 0%
 Leasehold Value: \$0
 Leased Fee Value: no lease

Recommendations: DNR may need to redemise center for multiple tenants if big-box retailer cannot be found to master-lease.

Comments: Store located within path of growth, yet Wenatchee is saturated with retail and a newer Wal-Mart now competes in immediate vicinity.

DNR Number:	39-071061
DNR Name:	Creekview Building

PROPERTY DESCRIPTION:

Address: Quadrant Monte Ville Center Lots 19 and 20,
 Bothell Snohomish County WA
 Configuration: Irregular
 Total Land Area: 3.24
 Land Area (SF): 141,326
 Zoning Authority: City of Bothell
 Zoning: MU-Mixed Use
 Improvement Description: Masonry, flex-type two story office building
 NLA 46,000
 Tenants: W&H Pacific anchors building; high vacancy
 Year Built: 1998

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural
 Resources
 Lessee: W&H Pacific
 Lease Term: 10 years
 Start Date: 12/1/1998
 End Date: 11/30/2008
 Net Leasable Area (NLA) 28,113
 Base Rent: \$478,032
 Rent/SF/NLA \$17.00

MARKET VALUE INDICATORS

Value basis: acquisition
 Date Acquired 3/1/1999
 Purchase Price: \$7,000,000
 Price/ NLA \$152.17
 Rate of Return at Acquisition 9.00%
 Fee Simple Value: \$7,100,000
 Value per Square Foot: \$154.35
 Current Pro Forma NOI: \$500,151
 Actual Rate of Return: 7.04%
 Leased Fee Value: \$7,100,000

Comments: Located in technology center, surrounded by office
 parks but with circuitous location, buried in low density
 upper-end residential neighborhood.

DNR Number:	39-074917
DNR Name:	JanSport

PROPERTY DESCRIPTION:

Address: 1202 Shuksan Way, Everett, Snohomish County, WA

Configuration: Rectangular

Total Land Area: 10.04

Land Area (SF): 437,342

Zoning Authority: City of Everett

Zoning: M-1

Improvement Description: Concrete tilt-up distribution warehouse designed to accommodate from one to four tenants.

NLA 203,818

LEASE ABSTRACT

Lessor: State of Washington- Department of Natural Resources

Lessee: JanSport

Lease Term: 10 years

Start Date: 2/1/2002

End Date: 2/1/2012

Net Leasable Area (NLA) 203,818

Base Rent: \$1,125,000

Rent/SF/NLA/ month \$0.46

Escalations: \$93,750/mo. Years 4-6
\$102,175/mo. Years 7-9
\$102,750/mo. Year 10

Recoveries: Triple net

Renewal Options: (2) 5-year renewal options at 95% of estimated market rent

MARKET VALUE INDICATORS

Value basis:

Date Acquired 6/5/2005

Purchase Price: \$12,900,000

Price/ NLA \$63.29

Rate of Return at Acquisition 8.00%

Fee Simple Value: \$18,000,000

Contract NOI: \$1,125,000

Value per NLA: \$88.31

Comments: Distribution warehouse in industrial park near large Boeing complex and Payne Field in Everett.

DNR Number:	39-073750
DNR Name:	Walgreens Mukilteo

PROPERTY DESCRIPTION:

Address:	NW Corner of Harbour Pointe Blvd and SR 525, Mukilteo, WA
Configuration:	Irregular
Total Land Area:	4.43
Land Area (SF):	192,971
Zoning Authority:	City of Mukilteo
Zoning:	PCBS (Planned Community Business South)
Improvement Description:	built -to-suit concrete block drug store with a drive-through, located at entrance to Harbor Pointe community
NLA	15,016
Tenants:	Walgreens
Parking Ratio	6/1,000 SF of GLA
Year Built:	2000

LEASE ABSTRACT

Lessor:	State of Washington- Department of Natural Resources	
Lessee:	Walgreen Co	
Lease Term:	60 years	
Start Date:	9/1/2001	
End Date:	8/31/2061	
Net Leasable Area (NLA)		15,016
Base Rent:	\$446,000	
Rent/SF/NLA	\$29.70	
Escalations:	Rent is flat	
Recoveries:	Triple net	
Renewal Options:	option to terminate after 25 years	

MARKET VALUE INDICATORS

Value Basis:	
Date Acquired	2/5/2005
Purchase Price:	\$5,400,000
Price/ NLA	\$359.62
Rate of Return at Acquisition	6.76%
Fee Simple Value:	\$7,400,000
Contract NOI:	\$446,000

Comments: Well located store, the value of the lease tied to the credit-worthiness of the tenant.

PROFESSIONAL QUALIFICATIONS

P. BARTON DeLACY, MAI, CRE, FRICS

*Managing Director, Corporate Finance Consulting
Valuation Services, Capital Markets Group*

Mr. DeLacy began appraising real estate in 1977. Before joining Cushman & Wakefield, Inc. in 2004, he spent over 18 years as a partner or principal of fee appraisal and consulting firms based in Portland, Oregon. From 1998-2002 he led the real estate consulting practice in the Pacific Northwest (Oregon, Washington and Idaho) for Arthur Andersen LLP.

Mr. DeLacy was named Managing Director and National Practice Leader for Corporate Finance Consulting (“CFC”) at Cushman & Wakefield in 2006. CFC focuses on corporate engagements involving real estate related consulting services. His professional contributions include teaching, writing and service on local non-profit boards and public commissions.

Experience

The CFC practice centers on valuation for financial reporting (“VFR”). Additional follow-on consulting services include advising on highest and best use opportunities, litigation support and strategy, land use planning and site selection.

Having completed well over 3,000 complex valuation assignments including virtually all types of real property including resource lands, apartments, condominiums, office buildings, retail centers, industrial plants, warehouses and hotels, Mr. DeLacy now concentrates on problem solving engagements where valuation is incidental to the solution.

Specialties include integrated business and real property appraisals, land use impacts, health care facilities, land and timber portfolios and counseling for non-profit businesses with real property assets. He also has experience with valuation of partial interests and certain business enterprises.

Academic Credentials

Master of Urban Planning (MUP), Portland State University – with emphasis in regional economics and geographic information systems (GIS) 1988

Bachelor of Arts (BA), Willamette University, Salem, Oregon 1975

School of Irish Studies, Dublin, Ireland 1974

University of Oregon School of Law, Eugene, Oregon 1976-7

Appraisal Education

Successfully completed all courses and experience requirements to qualify for the MAI designation. Also, he has completed the requirements of the continuing education program of the Appraisal Institute.

Professional Designations and Licenses

- Fellow, the Royal Institution of Royal Chartered Surveyors (FRICS)- 2005
- CRE, Counselors of Real Estate- 2003
- MAI Member, Appraisal Institute- 1983
- ASA Member, Urban Properties, American Society of Appraisers- 2002



Mr. DeLacy is a duly Certified General Real Estate Appraiser in the following states:

- Oregon, license number C000089
- New York, ID No. 46000046642
- Washington, license number 1100107
- Idaho, license number CGA-255
- Montana, license number 445
- California, license number AG034219
- Kansas, license number G-2235
- Missouri, license number 2005035957

Teaching

Adjunct Instructor, Portland State University at the School of Business Administration and Marylhurst University, Center for Professional Real Estate Studies; teaching land use planning and appraisal courses

National Business Institute, Lorman Education Services, Clackamas Community College, Lane Community College

Guest Lecturer: University of Portland

Articles Published, Major Presentations:

- “Value Added” monthly real estate column appearing in The Daily Journal of Commerce, 2006.
- “Turbine land-use challenges should blow over” *Daily Journal of Commerce* Value Added column February 2, 2006.
- Speaker at Measure 37 Summit, Oregon Law Institute at Lewis & Clark Law School, January 5, 2005.
- “A LULU of a Case: Gauging Property Value Impacts in Rural Areas” Real Estate Issues, Fall 2004.
- “Shall We Hallow Fallow Ground?” Daily Journal of Commerce columns with Bob Stacey of 1000 Friends of Oregon, March 4 and May 28, 2004.
- “Open Spaces, Empty Vistas”, Brainstorm NW, Current Events, July 2003.
- “Seattle Creek Initiative Has Profound Implications”, Puget Sound Business Journal, Vol. 23, No. 49, April 10, 2003.
- “Real Estate Strategies: Using Technology to Help Convert Secondary Lands to Highest and Best Use”, presented at 2002 OSCPA Forest Products Conference, Eugene, OR, June 2002.
- “Health Care Clients Rely on GIS and Web Portal to Manage Real Estate”, white paper presented in Washington DC at ESRI Global Healthcare Conference November 2001, published on website, Feb. 2002.

- “Oregon Siting Process Made Prison Location Successful”, *The Corrections Professional*, LRP Publications, 1998.
- “Highest and Best Use Should Guide Prison Siting” *Corrections Compendium*, American Correctional Association, February 1998.
- “The Emerging role of GIS in Real Estate Development Planning” with Kenneth J. Dueker, *Journal of the American Planning Association*, American Planning Association. 1990.
- “Creative Financing Concessions in Residential Sales: Effects and Implications,” James Strathman, Barton DeLacy, and Kenneth J. Dueker, *Housing Finance Review*, Vol. 3, No. 2, Spring 1984, pp. 149 - 163. PSU Catalog Number R006.
- “A Modified Cash Equivalency Technique For Residential Appraising: Market Studies and Institutional Implications,” P. Barton DeLacy and James G. Strathman, *The Real Estate Appraiser and Analyst*, Vol. 50, No. 4, Winter 1984, pp. 23 - 27. PSU Catalog Number R005.
- “Cash Equivalency for Residential Appraising,” *The Appraisal Journal*, American Institute of Real Estate Appraisers, January 1983.

Community Service:*Current Activities:*

- Mt. Angel Abbey Foundation Trustee (since 2003)
- President, Portland Chapter of American Society of Appraisers (2004-5)
- Appraisal Standards Council of Appraisal Institute (1995, 2005)

Select Past Activities:

- Advisory Board to College of Urban and Public Affairs at Portland State University (since 1998-2004); Dean Search Committee (2003-4)
- Emergency Siting Authority: Juvenile Corrections Facilities (1995, 1998), appointed by then Oregon Senate President, now U.S. Sen. Gordon Smith.
- Planning Commissioner, City of Lake Oswego, Oregon two terms (1989-1993)
- Board of Trustees, Willamette University (1991-1994), and President Alumni Association (1992-1993), Alumni Board (1986-93)
- Panel Member, Regional Advisory Board to the Oversight Board, Resolution Trust Corporation (RTC) – oversaw disposition of real estate assets in six state western region (1990-1991); appointed by then HUD Secretary Jack Kemp
- Board member Leukemia Society of Oregon (1987-97), March of Dimes (1998-2002)
- Past President Eugene Chapter Society of Real Estate Appraisers (1980), Board Member Oregon Chapter of Appraisal Institute (1981-83)

PROFESSIONAL QUALIFICATIONS

Brian J. Booth

Director, Valuation Services, Capital Markets Group

Mr. Booth entered the real estate business in 1993. Mr. Booth's primary focus is major national retail properties, including regional malls, department stores, specialty centers, and other formats. Cushman & Wakefield is a national full service real estate organization.

Experience

Brian J. Booth joined Cushman & Wakefield Valuation Advisory Services in 1995. After working for six years at the World Headquarters in New York City he joined Cushman & Wakefield of Oregon in September 2001.

Mr. Booth previously worked for two years at C. Spencer Powell & Associates in Portland, Oregon, where he was an associate appraiser. He worked on the analysis and valuation of numerous properties including, office buildings, apartments, industrials, retail centers, vacant land, and special purpose properties.

Education

Bachelor of Science (BS), 1993

Major: Business-Economics

Willamette University, Salem, Oregon

Study Overseas, 1992

London University, London, England

Appraisal Education

110	Appraisal Principles	Appraisal Institute	1993
120	Appraisal Procedures	Appraisal Institute	1994
310	Income Capitalization	Appraisal Institute	1994
320	General Applications	Appraisal Institute	1994
410	Standards of Professional Practice A	Appraisal Institute	1993
420	Standards of Professional Practice B	Appraisal Institute	1993
550	Advanced Applications	Appraisal Institute	1999
	Environmental Concerns/Fair Housing	New York University	2000

Memberships, Licenses and Professional Affiliations

Associate Member, Candidate MAI, Appraisal Institute

Young Advisory Council, Appraisal Institute

